

Opposition Leader To Meet With Chun On Halting Violence

By Lena Sun
Washington Post Service
SEOUL — President Chun Doo Hwan and a prominent opposition leader have agreed to meet Wednesday for the first time in an effort to end nearly two weeks of street violence in South Korea, officials said.

Mr. Chun and Kim Young Sam agreed Tuesday to meet after Mr. Kim was reported to have dropped two conditions to holding the talks. One was that another opposition leader, Kim Dae Jung, be released from house arrest. The other was that the more than 200 protesters detained over the past two weeks be released.

In return, government officials agreed to allow Kim Young Sam to consult with Kim Dae Jung. Mr. Chun declared an end to debate on political reform in April and had refused to talk with his opponents. He announced a change of mind Monday and offered to meet at the presidential residence with Kim Young Sam and others.

The meeting between Mr. Chun and Kim Young Sam, president of the main opposition party, the Renovation Democratic Party, comes at a time when Mr. Chun is beset by the worst political crisis in his seven-year rule.

The talks between Mr. Chun and Mr. Kim are one of a series of high-level meetings among government, opposition and U.S. officials that are expected to take place Wednesday and Thursday.

Gaston J. Sigur Jr., assistant secretary of state for East Asian and Pacific affairs, arrived Monday in Seoul and met with Foreign Minister Choe Kwang-soo and Cardinal Kim Sou Hwan, leader of the country's two million Catholics.

Kim Young Sam, in preparing for the meeting with Mr. Chun on Wednesday, said he would seek a retraction of Mr. Chun's April 13 decision suspending talks with the opposition on reforming the constitution. He said he would demand a national referendum on how the next national leader should be elected.

The opposition has said the current system, in which the president is chosen by an electoral college, is open to manipulation by the ruling party. It wants direct election of the president while the ruling party is proposing a parliamentary system headed by a prime minister.

"When the government guarantees that we can have a democratic government," Mr. Kim said, "then there won't be any demonstrations and violence."

Mr. Chun is under extreme pressure to introduce democratic reforms. Still, on Tuesday, he projected a business-as-usual image, leaving town for the day for the official opening of a pair of nuclear reactors.

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TANKERS COLLIDE — Six persons were missing after two fuel tankers collided Tuesday on the Seine in northwestern France. Page 2.

U.S. Seeks To Settle Arms Snag

Shultz Will Meet Shevardnadze For Treaty Talks

By Thomas Netter
International Herald Tribune
GENEVA — George P. Shultz, the U.S. secretary of state, and Eduard A. Shevardnadze, the Soviet foreign minister, have agreed to meet in Washington in mid-July in an effort to resolve differences over a treaty on medium-range nuclear missiles, a senior Reagan administration official said Tuesday.

The official, Edward L. Rowley, who is a special adviser on arms control to President Ronald Reagan and Mr. Shultz, said the delegations would include senior arms negotiators from the Geneva talks on medium-, long-range and space weapons.

"It is in Washington and they're working out the dates," Mr. Rowley said during a visit to Geneva in mid-July in an effort to resolve differences over a treaty on medium-range nuclear missiles, a senior Reagan administration official said Tuesday.

The official, Edward L. Rowley, who is a special adviser on arms control to President Ronald Reagan and Mr. Shultz, said the delegations would include senior arms negotiators from the Geneva talks on medium-, long-range and space weapons.

"I think there will be a good size effort at Shultz-Shevardnadze to resolve the remaining questions," Mr. Rowley said. "If they are not, or only practically resolved, then you can't expect these people here to work on that complicated treaty and get it done by autumn."

Although both sides have said they are anxious to conclude such a treaty, they remain at odds over verification, the timing of missile removal, how many shorter- and medium-range missiles they can keep, and 72 West German Pershing-1A missiles whose nuclear warheads are under U.S. control.

The treaty now under discussion would eliminate U.S. cruise and Pershing-2 missiles and Soviet SS-20 missiles in Europe, while allowing each side to keep 100 medium-range missiles warheads on their respective territory. Last week, the United States proposed additional language for eliminating about 140 Soviet shorter-range missiles. The United States has no such missiles.

Mr. Rowley suggested, however, that the lack of a concrete Soviet response to the U.S. proposals so far should not be seen as a rejection, but rather an absence of guidance from Moscow.

"I think they have to get some decisions from Moscow to get them moving," Mr. Rowley said. "They have to be told, for example, if Moscow wants to go to zero on medium-range missiles in Europe."

U.S. Widened Lead in '86 as No. 1 Debtor

\$263 Billion Owed To Rest of World Is Double '85 Total

WASHINGTON — The debt owed by the United States to the rest of the world more than doubled in 1986 to \$263.6 billion, sinking the nation deeper into its position as the world's No. 1 debtor, the Commerce Department said Tuesday.

The Commerce Department said that the new debt burden was 135 percent higher than a revised \$111.9 billion in debt to foreigners at the end of 1985.

That year marked the first time since 1914 that America was classified as a debtor nation, Debtor status means that foreigners now own more in U.S. investments than Americans own in foreign investments.

Analysts had expected the figure to be around \$200 billion. At \$263.6 billion, the U.S. debt exceeded that of the next three biggest debtor nations combined, Brazil, Mexico and Argentina.

For 1986, foreign investment in the United States shot up 26 percent to \$131.3 billion. That offset a 13 percent increase in U.S. investments abroad.

The dollar's rally in Europe crumbled in late dealings on rumors that the U.S. Federal Reserve was selling dollars just below the levels of 1.85 Deutsche marks and 147 yen.

News that the U.S. foreign debt more than doubled in 1986 to \$263.6 billion further depressed the currency. In New York, it ended at 1.8345 DM, down from 1.8470 DM at Monday's close, and at 146.05 yen, down from 146.20.

It also weakened against the British pound, which rose to \$1.6030 from \$1.5875. While some exchange dealers believe that the U.S. currency has "bottomed out," and is beginning a gradual upward trend, the majority of them remain bearish.

Syrian Denies Ultimatum on Kidnapping

By Ihsan A. Hijazi New York Times Service

BEIRUT — A high-ranking Syrian officer said Tuesday that force will not be used for the time being to secure the release of a kidnapped U.S. journalist, Charles Glass, and a Lebanese businessman, Ali Ousseiran, who was his host.

Brigadier Ghazi Kanaan, the chief of military intelligence for 30,000 Syrian troops in Lebanon, denied reports in the Beirut press that the Syrian command had fired Tuesday noon as deadline for the kidnappers to release the hostages.

According to the reports, the Syrians had threatened to resort to force if the ultimatum went unheeded.

Mr. Ousseiran is the oldest son of the Lebanese defense minister, Adel Ousseiran, who denied a story in the leading daily newspaper, *Al-Nahar*, on Tuesday that he would resign if his son were not set free by midday Tuesday.

All Ousseiran, his driver and Mr. Glass were seized by gunmen last Wednesday as they were driving in one of the predominantly Moslem Shiite southern suburbs of Beirut.

The fundamentalist faction, Hezbollah, or Party of God, which is linked to Iran, has denied that it is holding the captives.

Last February, Brigadier Kanaan supervised the deployment of 7,000 Syrian soldiers in Moslem West Beirut and routed militiamen who had engaged in bitter street fighting.

He returned to Beirut two days ago with instructions from President Hafez al-Assad to find the missing American and his Lebanese companions.

He visited the southern suburbs Tuesday and met with Sheikh Mohammed Mahdi Chamseddin, the spiritual head of Lebanon's one-million Shiite Moslems.

Sources close to the Syrian command said Brigadier Kanaan is sounding out Shiite leaders on the possibility of sending Syrian troops into the suburbs, a hotbed for Shiite extremists, with a population of about 700,000.

The possible Syrian deployment was discussed Monday night at a meeting between Brigadier Kanaan and Nabih Berri, the minister of justice who leads the largest Shiite militia, Amal.

The daily newspaper, *Al-Hakika*, known to reflect Mr. Berri's thinking, said in its lead story Tuesday that the latest kidnappings and factional clashes have underlined the need for Syrian military contingents in the southern suburbs.

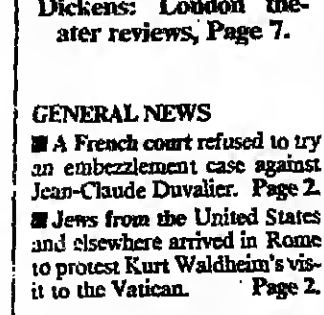
Kiosk

Soviet Vault Sets Record

PRAGUE (Reuters) — Sergei Bubka on Tuesday night set the seventh pole vault world record of his career, soaring over the bar at 6.03 meters (19 feet, 9 3/4 inches).

Mr. Bubka, the world and European champion and the only person to clear 6 meters, broke his own record of 6.01 meters, which he set in Moscow in July.

The record was set at the Rostky Memorial Grand Prix, which was interrupted by torrential rain.



A scene from "Hard Times" by Charles Dickens: London theater reviews, Page 7.

GENERAL NEWS

■ A French court refused to try an embezzlement case against Jean-Claude Duvalier. Page 2.

BUSINESS/FINANCE

■ U.S. prices rose 0.3 percent in May; durables orders dipped 0.1 percent. Page 9.

Down close: DOW 5/8
The dollar in New York:
DM £ Yen FF
1.8345 1.603 146.05 6.1225

VW, Toyota Agree on Truck Venture In Germany to Counter Trade Pressure

By Ferdinand Proczman International Herald Tribune

FRANKFURT — Volkswagen AG and Toyota Motor Corp., the biggest automakers in Europe and Japan, said Tuesday that they had agreed to join forces to produce up to 15,000 Toyota pickup trucks a year at a VW plant in Hannover.

Analysts said the accord, the third such venture between Japanese and European automakers in Europe, appeared to leave the door open for a later agreement on car production.

"Initially, the VW-Toyota agreement may involve only an exchange of technology or know-how on trucks," said an industry analyst for Westdeutsche Landesbank AG in Dusseldorf. "But the Japanese realize that they must eventually produce autos in Europe to protect their market share and access."

Japan sold more than one million cars in EC nations in 1986, and auto industry experts expect 1987 sales to be about 20 percent higher.

In the face of growing hostility to their push into Europe's crowded auto marketplace, however, Japanese automakers have begun turning to joint ventures as a way of circumventing the possibility of formal trade curbs on their exports.

The VW accord, for example, effectively gives Toyota an opportunity to boost its sales in Europe by 15,000 units a year without running afoul of import restrictions. Honda Motor Co. and Nissan Motor Co. have similar joint-venture production operations in Britain.

"It's an effort to get a local production base with a minimum of risk," Ben Moyer, a Merrill Lynch analyst, told Reuters.

Dollar Ends Lower As Split Emerges On Its Direction

By Ferdinand Proczman International Herald Tribune

The dollar shed strong early gains Tuesday to finish mostly lower in Europe and New York, reflecting newly split opinion in the market on whether the U.S. currency's slump has finally ended.

The dollar's rally in Europe crumbled in late dealings on rumors that the U.S. Federal Reserve was selling dollars just below the levels of 1.85 Deutsche marks and 147 yen.

News that the U.S. foreign debt more than doubled in 1986 to \$263.6 billion further depressed the currency. In New York, it ended at 1.8345 DM, down from 1.8470 DM at Monday's close, and at 146.05 yen, down from 146.20.

It also weakened against the British pound, which rose to \$1.6030 from \$1.5875. While some exchange dealers believe that the U.S. currency has "bottomed out," and is beginning a gradual upward trend, the majority of them remain bearish.

But the division of opinion is in itself a substantial change, dealers say.

See DOLLAR, Page 13

See DEBT, Page 13

Hearings Focus on Iranian Go-Between

By Stephen Engelberg New York Times Service

PARIS — The second phase of the congressional Iran-contras hearings, focusing on the arms sales to Iran, opened Tuesday, with one question certain to be at the center of debate.

That question is: why did the United States gamble its prestige on Manucher Ghorbanifar, the expatriate Iranian businessman who helped orchestrate the secret deals, even though many in the government viewed him as unreliable and as a liar?

Alluding to the Reagan administration's penchant for relying on him as an intermediary, Mr. Ghorbanifar said recently: "If they think I cheated them, why did they keep coming back to me?"

In this new phase of the hearings, the committees plan to examine the administration's and the president's obsession with the American hostages in Lebanon, which was so intense that it led many officials to overlook Mr. Ghorbanifar's questionable reputation.



"If they think I cheated them, why did they keep coming back to me?" — Manucher Ghorbanifar

deal-maker with seemingly boundless enthusiasm for complex plots crisscrossing the Middle East; he sometimes offers riddles in place of direct explanations for what he has done; he will not talk at all about the factional struggles inside Iran that led the administration to seek an opening in Tehran in the first place.

Not everything he says can be verified. But the account of five separate conversations with him that follows largely includes material about the Iran affair that could be confirmed elsewhere, either by others involved or by U.S. government documents.

In the interviews, Mr. Ghorbanifar challenged an American view of the Iran dealings that describes which gullible White House officials were lured in an exchanging weapons for a promise, never completely fulfilled, that Americans taken hostage in Lebanon would be released.

From Mr. Ghorbanifar's point of view, the Iranians were cheated by the American side, which repeatedly overcharged Iran for weapons and failed to deliver on promises.

Mr. Ghorbanifar provided copies of financial documents he has turned over to the congressional committees in support of his assertion that he made no money from the weapons shipments. He also made these points:

• The arms sales by America were known to and approved by all elements of the Iranian government. "Nobody has private money in the government," he said. "The budget is from one place." American officials have said Mr. Ghorbanifar led them to believe they were dealing with moderate religious leaders, if this failed, money would be offered; and if all else failed, the Iranians would send armed operatives.

• Mr. Ghorbanifar said the Rev. See GHORBANIFAR, Page 3



RAIN DELAY — Groundsmen pulled the covers over Wimbledon's center court Tuesday on the second day of rain, but the showers later stopped and Boris Becker, Ivan Lendl and Stefan Edberg won first-round matches.

From Montenegro, Roundabout Road to Better Life

By Henry Kamm New York Times Service

TUZI, Yugoslavia — The black mountains of Montenegro have been verdant in the fullness of spring, and young men's fancies are turning to Mexico — and the lure of the border to its north.

For many years, ethnic Albanians from this underdeveloped region just across the mountains from Albania have been entering the United States illegally, to join relatives who entered earlier under a subterfuge.

Those who come back to visit in the summer do a lot of advertising for America," said the Reverend Gogjaj Pasniko, an ethnic Albanian priest at the Franciscan Mission of St. Anthony of Padua in Tuzi.

As a result, said Zoran Gregl, undersecretary for foreign relations of Yugoslavia's Republic of Montenegro, the "Mexican connection" rises to peak activity every August.

"They come from America with their gold rings and gold watches and their dollars," Mr. Gregl said. "They are rich for people from here. They tell them all about striptease and life in America."

Mr. Gregl said that since the mid-1960s, from 18,000 to 20,000 ethnic Albanians from this region had migrated to the United States. In the beginning, according to the official, as well as the Reverend Markolaj Deda, another Franciscan, the road went through Italy.

Pretending that they had entered Yugoslavia as refugees from repressive Albania, entire families persuaded American officials at refugee camps in Italy to grant them immigration visas with status as politically persecuted people. From this legal nucleus, the "Mexican connection" developed.

Almost everybody in Tuzi, as well as in the dirt-poor hamlets belonging to the villages of Plav and Gusinje farther east, has brothers, sisters or children in the United States. About 5,000 Albanians live in Tuzi, the Roman Catholic priest said, and about 5,000 in the United States — many in Detroit, Chicago or Cleveland.

In the Plav and Gusinje area, most of the ethnic Albanians are Moslems. They, too, seem to have an equal number of compatriots in the United States, with New York the favored center.

The American connection is evident throughout the region because, driven by yearnings for home, many of the migrants return for long stays on native soil. They build houses, make their Social Security pensions go farther than they would in Brooklyn and enjoy living in the mountain calm, surrounded by familiar languages and sights.

But they remain American patriots, even if in 16 years or so they did not acquire U.S. citizenship.

"Best country in the world, everything in America O.K.," said Mark Luliguraj, 49, who is See MONTENEGRO, Page 6

French Court Refuses To Judge Duvalier on Embezzlement Charges

By Jonathan C. Randal
Washington Post Service

PARIS — A French court refused Tuesday to consider Haiti's request to force the deposed Haitian president, Jean-Claude Duvalier, to return \$120 million that the new government said he looted during 15 years in power.

The civil court in Grasse, near the Riviera, said it was unqualified to judge the case on technical grounds.

Although the Haitian government was given 10 days to appeal, the judgment appeared to open the way for the French authorities to unfreeze most of Mr. Duvalier's assets in France, which include a chateau outside Paris.

Before the trial opened in May, the Haitian justice minister, Francois Saint-Fleur, said he hoped a French court order for the return of the \$120 million could be used as a tool for lawsuits in other countries where much of Mr. Duvalier's money is believed hidden.

Switzerland often has been cited and, on Haiti's request, the Swiss government has frozen Mr. Duvalier's bank accounts there.

Since shortly after Feb. 7, 1986, when Mr. Duvalier and his family were forced to flee aboard a U.S. military plane to Grenoble, the 35-year-old former president and his entourage have been restricted to a short stretch of the Riviera.



A worker repairing flagstones at one of the monasteries in Tibet once ruined by the Chinese.

Jews Gathering in Rome For Waldheim Protests

United Press International

ROME — Four U.S. Jewish activists arrived here Tuesday from New York, saying they would demonstrate wherever President Kurt Waldheim of Austria appears during his official visit to the Vatican.

The group is led by Rabbi Avi Weiss of Riverdale, New Jersey. He said the group planned to join other Jewish protesters from Europe and elsewhere.

Mr. Waldheim is to arrive late Wednesday for his two-day visit to the Holy See, his first official visit abroad since he was elected last year.

Jewish groups have accused Mr. Waldheim, a former UN secretary-general, of committing war crimes against Jews during World War II.

The Vatican confirmed Tuesday that Mr. Waldheim would have an official audience with Pope John Paul II at the Vatican on Thursday morning and that he would be welcomed with the full honors of a visiting head of state.

Poland Regrets Shelling of Ship

United Press International

BONN — Poland has apologized to West Germany for an incident in which a Polish Navy ship hit a West German ship with eight anti-aircraft rounds in international waters in the Baltic Sea, the West German Foreign Ministry said Monday.

The Polish ambassador, Tadeusz Nestorowicz, transmitted his government's apology to West Germany on Saturday for the incident, which occurred June 15 off the Soviet coast during a Warsaw Pact naval exercise.

The ambassador said the shelling was an accident and he extended Poland's regrets to the three sailors aboard the Neckar who were injured.

Harare to End White Elective Seats

Reuters

HARARE — Zimbabwe will introduce an executive presidency and a single-chamber parliament this year and abolish separate parliamentary representation for the white minority, it was announced Tuesday.

The government of Prime Minister Robert Mugabe also pledged to keep troops in Mozambique — now about 12,000 — until peace has been restored. Mozambique has been fighting a rightist guerrilla insurgency for almost 11 years, and Zimbabwe depends on rail links to Mozambican ports.

Whites Zimbabweans, numbering 100,000 in a population of eight million, were guaranteed separate seats in parliament for seven years in the agreement that installed black-majority rule in 1979.

President Canaan Banana, opening a session of parliament, said that Zimbabwe will act in accordance with a long-standing pledge to remove the provisions for separate white seats. Whites hold 30 of the 100 seats in the lower chamber and 10 in the 40-seat Senate.

"This measure will be followed by other amendments whose objective is the creation of a unicameral legislature and the introduction of an executive presidency," Mr. Banana told the legislators.

Political analysts believe that the constitutional changes will be a prelude to the introduction of one-party government. Mr. Mugabe's goal since he came to power.

White members of parliament listened impassively as Mr. Banana confirmed the long-standing rumor that their special seats would be eliminated. Observers in Zimbabwe, however, believe that some of the whites could be re-elected to parliament in their own right.

Mr. Mugabe, whose Zimbabwe African National Union-Patriotic Front controls 67 seats in the lower house, has repeatedly said that the white seats will be eliminated.

Jan Smith, the former prime minister of Rhodesia who unilaterally declared independence from Britain in 1965 and vowed to block black majority rule, was not in the chamber. He was suspended last April after 39 years in parliament.

In his address, Mr. Banana said Zimbabwean troops would continue operations along routes to the sea in Mozambique.

"It is noteworthy that our operations inside Mozambique are intended not only to keep these routes safe for our goods, but also to eliminate the Renamo bandits from Mozambique," he said.

Renamo, another name for the rightist Mozambican National Resistance guerrilla organization, has begun to raid Zimbabwean border villages in retaliation for Harare's military support of the Mozambican government.

Tibet, Still China's Untamed Dragon Hatred Lingers After Frenzy of Death and Destruction

By Edward A. Gargan
New York Times Service

LHASA, Tibet — Four green-uniformed Chinese policemen swaggered into a small restaurant on Xinfu Road, drank tea and left without paying.

The restaurant owner, a Tibetan, shrugged.

"There is nothing we can do," he said. "The police never pay. Who would we complain to?"

Hatred of the Chinese still courses through this arid land. In towns and villages, monasteries and marketplaces, Tibetans harbor a loathing of the government and the Chinese who are settling here.

"People are afraid of the Chinese," said a 22-year-old man who runs a small shop in the old Tibetan quarter of Lhasa. "Remember what they did to us."

It is the memory of two decades of killing and destruction inflicted by the Chinese that gives passion to Tibetan attitudes. In the 20 years after a futile uprising in 1959, Chinese destroyed monasteries, temples, even whole villages. Tens of thousands of Tibetans were imprisoned, and thousands were executed.

Since 1979, the Chinese authorities have sought to repair some of the damage. Several major monasteries are being rebuilt. Beijing has injected funds into Tibet for roads and hydroelectric projects.

But with the governmental largesse have also come more Chinese, whose presence the Tibetans find oppressive. The Chinese are sent here to run the government, work on construction projects and serve in the many army units.

A former member of the Tibetan nobility whose family was jailed and scattered during the post-rebellion decades said the Chinese now form the majority in Lhasa, a city of fewer than 200,000 people.

"I think the Chinese are 60 percent now," he said. "You can tell the Chinese apart. They don't look like us. They don't speak our language. They don't even try."

Tibetans interviewed over a two-week period without any supervision by government officials often voiced emotional denunciations of the Chinese and their policies.

Lhasa has only a small core of traditional Tibetan whitewashed buildings clustered below the soaring Potala Palace, the former residence of the Dalai Lama. Around this core, centered on the Jokhang Temple, ring upon ring of stolid cement-block apartment buildings for the Chinese spread out along the Kyi Chu River and toward the nearby mountains.

Though Tibet has been designated an autonomous region, it remains tightly controlled by Beijing, which appoints the region's senior government and party officials.

Tibet, with about 2 million people, remains one of the poorest areas of China, with a per capita income of about \$80, less than half the national average. According to official statistics, 52.8 percent of the people cannot read, although Tibetans say the figure is closer to 80 percent.

There has been improvement in some urban amenities in the last several years, including the installation of a citywide drinking water system in Lhasa.

Officials say that over the last seven years \$16.2 million has been allocated to help the poor, although it is not clear where or how the money was spent.

Chinese officials extol Beijing's accomplishments in improving the life of Tibetans. In a speech this year, Deputy Prime Minister Wan Li praised the government's policies of reducing taxes for Tibetans, granting farmers and herders more say in how they work and choosing Tibetans for some official posts.

But power still rests with the Chinese. Wu Jinghua, who as Tibet's Communist Party secretary is the most powerful man in the region, is Chinese and does not speak Tibetan.

Many Chinese officials regard Tibet as a place of exile. In turn, most Tibetans appear to consider China almost an occupying power.

In Tibet, people beg for pictures of the Dalai Lama, the spiritual leader of Tibet who lives in exile in India. Never mentioned is the Panthen Lama, the second-highest leader in Tibetan Buddhism, who lives in Beijing and supports the government's policies.

Some Tibetans try to ignore the Chinese. In the Chago Valley south of Lhasa, a 68-year-old nomad woman named Choden sat inside her tent, woven from chocolate-brown yak wool. Her husband and two sons, she said, were in the mountains watching their 70 yaks.

Mrs. Choden said that despite the Chinese authorities, her family of nomadic herders maintained the ways of their parents.

"In the spring, we leave the village with the yaks and go into the mountains," she said. "We read the scriptures and watch the sky. We ask the monks what is a good day, and then we come here. My husband learned this from his father. From older times we learned how to read the sky."

The young shop owner in Lhasa said: "The Chinese have eased up for a while," he said, "but in two or three years, who knows, they will crack down again."

The Chinese want to give the impression that things are very free so that Tibetans in exile will come back. If all Tibetans were here and out in exile, they would keep us all as slaves."

Witness Attacks Demjanjuk's Alibi

Reuters

JERUSALEM — Israeli prosecutors tried on Tuesday to destroy the alibi of John Demjanjuk, the retired Ohio auto worker charged with war crimes as a Nazi guard during World War II.

A specialist in military history, Shmuel Krakowski, disputed Mr. Demjanjuk's contention that he was imprisoned by the Nazis for 18 months in Chelm, Poland, after being captured while fighting for the Soviet Army.

Mr. Krakowski said Chelm was a transit camp where prisoners spent no more than a few weeks.

Mr. Demjanjuk, 67, who was born in the Ukraine, claims he is a victim of mistaken identity.

6 Crewmen Are Missing in Seine Collision

Reuters

ROUEN, France — Six persons were missing and presumed dead Tuesday when two tankers collided on the Seine between Rouen and La Havre in northern France, officials said.

A local government official, Christian Siemal, said the Victoria, a 9,116-ton Greek tanker, was cut in half and exploded after a collision with the Fuyoh Maru, an 8,704-ton Japanese vessel loaded with kerosene.

Mr. Siemal said the six presumed dead were believed to include a French navigator employed by local port authorities and five crew members of the Greek tanker.

A farmer who witnessed the accident said he heard a powerful explosion and debris showered fields along the banks of the Seine. Windows were broken up to two and a half miles (four kilometers) away.

Mr. Siemal said there was no risk of river pollution.

Another official said: "We're lucky the Victoria wasn't carrying anything other than its own fuel. Otherwise we would have had a real catastrophe on our hands."

The Japanese vessel was only slightly damaged and was able to continue its voyage to Rouen.

The Victoria had sailed about 37 miles down the Seine from Rouen, where it had unloaded its cargo, and was on its way to the seaport of La Havre when the collision occurred at 10 A.M.

FAA Urged To Improve Flight Data Recorders

By Richard Wirtkin
New York Times Service

NEW YORK — The National Transportation Safety Board has opened a campaign to bolster standards for equipping airlines and other planes with crash recorders, which often play a critical role in determining the causes of accidents.

The agency on Monday called on the Federal Aviation Administration to go beyond the new rules announced in March and, in particular, to upgrade requirements for the fast-expanding commuter airline industry.

The rules cover the two types of crash-resistant recorders used by investigators to reconstruct events leading to accidents. One, a flight data recorder, provides continuous data on a plane's speed, altitude and other measurements of its performance. The other, a cockpit voice recorder, puts on tape all conversations and other sounds heard in the cockpit.

The recommendations expanded and refined proposals the safety board has been pushing for many years. Among the proposals are that the most advanced existing planes be re-equipped with flight recorders that can provide at least 32 types of data; that such recorders be mandatory on planes carrying as few as 21 passengers, rather than 31; and that the design of voice-recorder systems be improved so that the words of pilots will be preserved without interference from cockpit sounds.

The board said the commuter industry was advancing at a technological and operational pace comparable to the advance made 17 years ago when the airlines began using jumbo jets. But it added that it was not until March that new crash-recorder standards governing jumbo jets were extended to conventional-wide-body designs licensed before 1969. That was true, the board said, even if the actual planes were in current, continuing production.

"It is not possible," said the letter to the U.S. aviation agency, "to estimate how many lives or millions of dollars could have been saved had the changes adopted on March 25, 1970, been implemented 17 years earlier. The FAA is in a position to make a similar decision concerning cockpit voice and flight-data recorder requirements for commuter airlines."

The aviation agency acknowledged when the new rules were announced in March that stronger regulations might be required.

Early drafts of more stringent rules have already been drawn up, but it is expected to be many months before they can be translated into final regulations.

Jim Burnett, chairman of the safety board, said a major aim of the refined recommendations was to "zero in" on precisely what improvements his agency sought and to head off charges that they would be too costly.

For example, he said, it would be useful to take advantage of new technology that allows voluminous amounts of data on plane and engine performance to be shown on the video displays in the cockpits of the latest airliners.

The safety board said the amount of data that could be retrieved after an accident was so vast that the only limit seemed to be the recording capacity of the data recorder.

WORLD BRIEFS

A Monet Brings Record Price in Paris
PARIS (Reuters) — An 1878 painting of a bouquet of flowers by the French impressionist Claude Monet fetched 13.8 million francs (\$2.24 million) at an auction here Tuesday night.

The record of 10 million francs for a work of art sold in France was passed in four minutes at the Drouot auction house as Monet's *Bouquet de Fleurs* went to an unidentified buyer.

Officials at the auction house said Japanese buyers had expressed strong interest in the painting.

Saudis to Search for Mines in Gulf
WASHINGTON (AP) — Saudi Arabia has agreed to search for Iranian mines in the Gulf off the Kuwaiti coast and has designated hospitals for wounded Americans in case of emergencies, a senior U.S. official said Tuesday.

The Saudis are to use U.S.-made helicopters dragging special sleds to detect explosives. A team of U.S. specialists is investigating reports that Iran planted mines to damage tankers carrying Western oil supplies, the official said.

However, a U.S. request that the Saudis permit jet fighters to land for fuel is not being discussed, said the official, who asked not to be identified.

Thatcher Backs Peres on Peace Talks
LONDON (Reuters) — Foreign Minister Margaret Thatcher for his support Tuesday in talks with Prime Minister Yitzhak Rabin for an international peace conference on the Middle East.

Mr. Peres met with Mrs. Thatcher for nearly two hours. A spokesman for the prime minister said afterward that she had made it clear to Mr. Peres that "the United Kingdom considered an international conference the most practical way forward to negotiations between the parties directly involved in the Middle East conflict."

Mr. Peres was scheduled to arrive in Paris on Wednesday and will also visit West Germany and Switzerland. He is seeking support for a peace conference involving the five permanent members of the UN Security Council as well as Israel and Jordan and possibly other Arab countries. Prime Minister Yitzhak Rabin of Israel is opposed to an international conference, fearing it would force Israel to return land it captured in the 1967 Middle East war.

Death Toll Now 18 in Barcelona Blast
MADRID (Reuters) — The death toll in the Barcelona supermarket car-bomb attack by Basque guerrillas rose to 18 on Tuesday.

Mercedes Moreno, 33, died early Tuesday from burns suffered in Friday's attack, a hospital spokesman said. He added that three of the 33 persons injured were still in critical condition.

The death toll is now equal to the number killed in the 1985 bombing at the El Descanso restaurant frequented by U.S. servicemen near the Torrejon airbase outside Madrid. A Palestinian guerrilla group was blamed for that attack.

Carbide Cites New Proof of Sabotage
NEW DELHI (NVT) — Union Carbide Corp. investigators, nearing the end of a 16-month inquiry, say they have found new witness documents and scientific evidence proving that the 1984 Bhopal toxic gas disaster resulted from sabotage by a company employee.

Company investigators also said in recent interviews that they had found logs and documents that had been tampered with, which Carbide says indicates that several employees at its Bhopal plant knew about the start of the accident earlier than they acknowledged and then tried to cover up the knowledge.

The disaster killed about 2,000 people and injured 200,000. Indian officials and former employees of the plant vehemently dispute assertions of sabotage. India is suing the company, based in Danbury, Connecticut, for \$3.3 billion in damages, charging that the plant was badly designed and that its managers were negligent. The plant was run by the company's Indian subsidiary, Union Carbide India Ltd., 50.9 percent of which is owned by the American corporation.

Peru's Prime Minister, Cabinet Resign
LIMA (Reuters) — Prime Minister Luis Alva Castro of Peru and his cabinet have resigned, Foreign Minister Alan Wagner Tizon said Tuesday.

The Peruvian radio had previously reported Mr. Alva Castro's resignation, but there had been no confirmation before Mr. Wagner's statement. He denied that the resignation amounted to a government crisis and said ministers would continue to work normally until a new cabinet was named.

Mr. Alva Castro, who is also economics minister, is widely seen as having ambitions to succeed President Alan Garcia Pérez in 1990, and he has been repeatedly reported to be trying to leave the cabinet before there is a downturn in the economy.

For the Record
Bomb disposal experts in The Hague on Tuesday detonated a box left outside the Iranian Embassy. The police said the box turned out to be empty. (Reuters)

About 80 Jewish twins who survived the experiments of Joseph Mengele, the Nazi death camp doctor, are to receive compensation from West Germany, their Israeli lawyer said Tuesday. He said the twins, most of whom now live in Israel, would each receive between \$11,000 and \$14,000. (Reuters)

Argentina's Supreme Court upheld on Tuesday an immunity law affecting hundreds of army officers accused of human-rights violations during the 1970s. Only generals now face prosecution, and the ruling resulted in the immediate release of three convicted officials. (AP)

A warrant has been issued in Florence for the arrest of Maurizio Gucci, 39, president of the parent company of the Gucci fashion house. He is accused of breaking Italian foreign currency regulations. (Reuters)

Taiwan Adopts Law on Security

Reuters

TAIPEI — Taiwan's parliament approved national security laws Tuesday in a step toward ending 38 years of martial law.

The small opposition group in the assembly held a sit-in on the floor to protest the passage of the legislation, which they said is martial law in another guise. The law will force future political parties to renounce Communism and swear their allegiance to the island's constitution.

Martial law has been in force since 1949, when the Kuomintang, or Nationalist, forces retreated to the island after their defeat by Chinese Communists on the mainland.

TRAVEL UPDATE

Paris Offers New Air Controller Status
PARIS (Reuters) — A French Transport Ministry spokesman said Tuesday that the government planned to offer air traffic controllers the status of private employees instead of civil servants.

As private employees, the spokeswoman said, the controllers would find it easier to negotiate flexible pay settlements. French air traffic controllers have disrupted flights in and out of Paris for two months over a pay dispute.

Two commercial jetliners collided on a runway at International Airport in Los Angeles on Monday night. Both planes were damaged but no one was injured, officials said. (UPI)

Escudé is to see foreigners who do not prove that they are free of the AIDS virus from entering the country beginning in September. Health Minister Alejandro Saenz said Tuesday. (AP)

European Community transport ministers are scheduled to meet Wednesday in Luxembourg to discuss ways to reduce West European fares. (Reuters)

Storms Add to U.S. Airline Delays

The Associated Press

NEW YORK — On the first two days of summer, hundreds of air travelers in the United States reached their destinations only after delays, finding that in many cases their flights did not apply.

Air traffic was delayed Monday and Tuesday by bad weather in New York, Boston, Philadelphia, Washington and Atlanta, according to the Federal Aviation Administration.

There were delays going into Chicago, Los Angeles and San Francisco because of traffic restrictions on some route sectors, said Fred Farrar, an FAA spokesman in Washington.

In Atlanta, an Eastern Metro Express commuter plane on a maintenance flight had a landing gear failure Monday and skidded to a stop on one of the two main runways. Officials said as many as 250 flights had been delayed from landing, for as long as two hours.

The Air Transport Association, which represents the big carriers, estimated that there were 18,000 scheduled flights on Monday, carrying about 1.2 million people — up from 1.1 million passengers on the same day in 1986.

Airlines sold 63.7 percent of their seats in May, compared with 58.7 percent in May 1986. This year, passengers filed 34 percent more complaints with the Department of Transportation in May than in April.

"It's been a real hassle in the last couple of months," said Kathy Casey, a shoe company executive whose flight from Pittsburgh to Dallas-Forth Worth airport was two hours late Monday.

"Air traffic, waiting for a gate, sitting on runways waiting to leave," she said. "It just doesn't make sense."

Fog rain and lightning kept Representative Peter W. Rodino Jr., Democrat of New Jersey, waiting for 90 minutes at Newark International Airport on Monday late for a briefing on the Iran-contra hearings.

"On the flight down here, there were two separate delays due to pilot indication of heavy air traffic and not enough air traffic controllers," said Robert DiMarco, 28, of Rochester, New York, who was arriving in Miami. "That's from the pilot. That's what he told us."

In May, Transportation Secretary Elizabeth H. Dole wrote to 36 airlines warning of fines and other action if they did not start making their passengers happier.

Surveying 22 airports in April, the FAA found an average of fewer than 31 delays per 1,000 departures and arrivals, ranging from 103 delays per 1,000 in Boston to none in Cleveland.

The FAA, however, only counts delays caused by weather and flight control.

According to documents filed by Piedmont Airlines with the Department of Transportation, covering the performance of Piedmont and seven competitors from late February to early April, 36 percent to 46 percent of flights arrived late.

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U.S. Said To Back Bonn Trial

Decision Is Due On TWA Suspect

The Associated Press
BONN — Attorney General Edwin Meese 3d told West German officials Tuesday that President Ronald Reagan would accept a decision to try a suspected TWA hijacker here instead of extraditing him to the United States, West German television reported.

Mr. Meese met with West German officials in what U.S. spokesmen described as an attempt to convince them to extradite the suspect, Mohammed Ali Hamadeh. Bonn officials are expected to announce their decision on Wednesday.

Through fingerprints, the Lebanese Shiite was identified as one of the suspected hijackers of the Texas World Airlines flight in 1985. Mr. Hamadeh, who is currently in prison in Frankfurt, has been charged in the United States with the murder of a passenger on the hijacked airliner, Robert D. Stethem, a U.S. Navy diver.

Mr. Hamadeh, 22, was arrested in January at Frankfurt Airport after liquid explosives were discovered in his luggage. Gunmen in West Beirut kidnaped two German businessmen after the United States demanded that Mr. Hamadeh be extradited.

Mr. Meese refused to give any details of his nearly two hours of talks with Justice Minister Hans Arnold Engelhard and an earlier meeting with Interior Minister Friedrich Zimmermann.

Reagan Reported Satisfied

Mr. Reagan said Monday that he would be satisfied to see Mr. Hamadeh stand trial for murder "wherever he is tried." The New York Times reported from Washington.

Bonn has declined to agree to the extradition, reportedly for fear of terrorist retaliation either in West Germany or against two West German businessmen being held hostage in Lebanon.

Senator Alphonse M. D'Amato, Republican of New York, said in an interview on Monday that he was outraged by the administration's handling of the case and said it represented a dangerous capitulation to terrorists.

"The White House handled this poorly," he said. "President Reagan did not vigorously pursue this matter. He allowed the Germans to pursue the course they are taking by saying he'd be satisfied with their trying him."

Mr. D'Amato, one of the chairmen of the Senate's anti-terrorism caucus, sponsored a resolution last week, backed by 65 senators, calling for Mr. Hamadeh's extradition to face trial in the United States.

Mr. Reagan made his remarks about the case on Monday in Florida. In response to a question, the president said: "All I could tell you was that I knew and have known that he is going to be tried for murder wherever he is tried." Asked whether that satisfied him, Mr. Reagan answered, "Yes."

AMERICAN TOPICS

Anti-Smoking Efforts Succeed in Military

The crackdown on smoking in the U.S. military appears to be working, the Pentagon says, with tobacco sales at military commissaries down 18 percent during a recent six-month period. The air force says 31 percent of its personnel still smoke, but says "this reflects a 20 percent reduction" since 1985.

Dr. William Mayer, assistant defense secretary for health affairs, said a definitive survey of smoking by U.S. military personnel throughout the world would be made next year. He said the Defense Department hoped eventually to reduce smoking "to rates significantly below civilian levels."

The Pentagon's war on smoking was touched off in March 1986 by Defense Secretary Caspar W. Weinberger after a survey showed that 47 percent of the 2.1 million active-duty military personnel were smokers. This figure was down from 52 percent in 1982, but it was still well above the civilian rate of about 30 percent.

Rather than ban the sale of cigarettes or raise tobacco prices in military commissaries, Mr. Weinberger ordered an intensive educational campaign and sharp restrictions on where servicemen can smoke.

Short Takes

The \$5.5 billion Intermountain Power Project has opened in Delta, Utah. Burning seven trainloads of Utah coal a week, it will furnish Los Angeles, 490 miles (about 800 kilometers) to the southwest, with enough electricity to light a third of its dwellings without contributing to the city's smog problem. "Since California can't pollute its own air because it's so bad," said Alan Miller of the Sierra Club, an environmental group, "it's looking for nice clean places to pollute." However, the

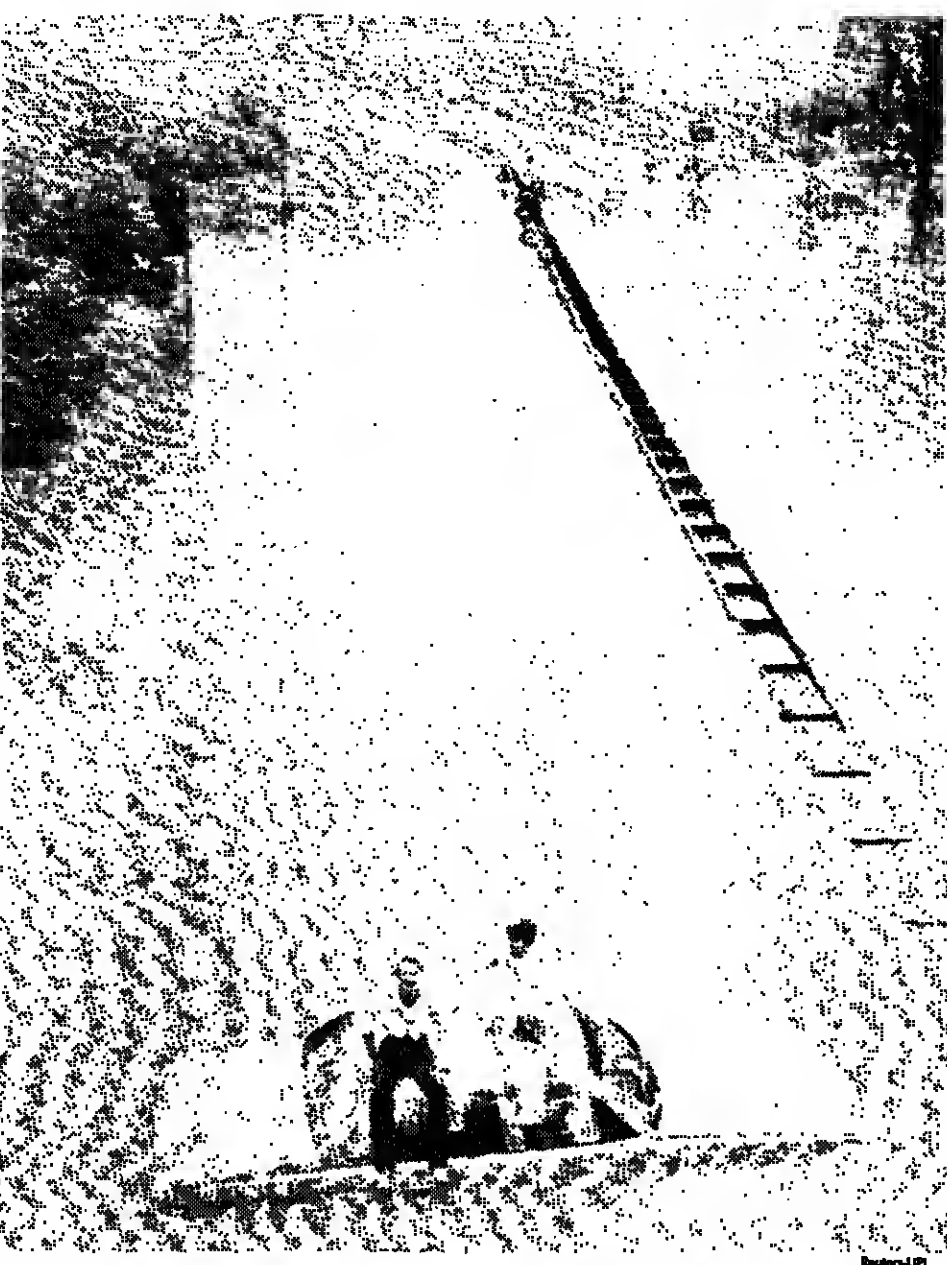
Beaches not seen in years are emerging along parts of the Great Lakes because of a drop in water levels from the record highs of last fall. The drop resulted from a long, dry spring following a winter with below-average snowfall. But Lake Michigan remains a foot and a half (45 centimeters) above its 100-year average. "People would be unwise to get a false sense of security," said Ron Fassbinder of the Wisconsin Department of Natural Resources. "It could turn around and go up as fast as it went down."

Black models are making a comeback in magazines and on billboards. They were widely employed during the civil rights movement of the 1960s but suffered a partial eclipse in the 1970s. "The world has finally opened up to a broader definition of what's beautiful," said Lacey Ford of Ford Models Inc. in Manhattan. Dee Simmons-Edestein of Del Marco Modeling touched on another angle: "We can no longer deny that there is a black consumer."

Toy to Outwit Spies Gets Mixed Reaction

During the furor over the planting of bugs in the U.S. Embassy in Moscow, two members of Congress told of using Magic Slate pads to communicate when they visited the embassy. The 99-cent toy has a stylus for writing on two plastic sheets. When the top sheet is lifted, the writing disappears.

The manufacturer, Western Publishing of Racine, Wisconsin, sent 25 cases of the slates to the State Department and to the U.S. Central Intelligence Agency, with a few samples to President Ronald Reagan. The company said that the State Department and the CIA politely demurred. The New York



STORMS, FLOODING HIT U.S. — Flooding from heavy rains stranded two men and their car on a highway in Buffalo, New York, after a record 5.01 inches of rain. Storms also hit the Midwest and New Jersey, New York and Pennsylvania on Tuesday.

Times reports, but that the White House sent a message written on a Magic Slate. Signed by Anne Higgins, director of correspondence, it

said: "Thank you for your letter to the President. Yours is the best idea we have had yet." Saying the idea was being forwarded to the State Department, the

CIA and the National Security Council, the message ended, "Please lift cover when you're done reading." —ARTHUR HIGBEE

TV Preacher-Candidate Aims to 'Repackage' Image

By Wayne E. King
New York Times Service

WASHINGTON — Dismayed by polls showing that many Americans have a negative view of the Reverend Pat Robertson and that they apparently cannot distinguish him from most other television evangelists, his chief media adviser is seeking to "repackage" him as a Christian businessman.

The communications director for the Republican presidential hopeful, Constance Snapp, said Mr. Robertson's problems existed before the scandals in the PTL television ministry broke in March.

Saying his fund-raising had not suffered since then, Mrs. Snapp insisted that the public was not confusing him with the Reverend Jim Bakker, the former PTL leader who has become more widely known than other television ministers as a result of an extramarital affair with a secretary. PTL stands for Praise The Lord or People That Love.

But, she said, most voters seem to blur Mr. Robertson together with Jerry Falwell, Jimmy Swaggart and most other ministers. And, she said, the public had a negative view of television ministers, at least as presidential candidates, because of their duties as moral leaders and because of concerns about separation of church and state.

"I was concerned about the high negatives," said Mrs. Snapp, who came to Mr. Robertson's exploratory presidential campaign from Madison Avenue seven months ago. She referred specifically to an opinion poll conducted by the Roper organization for The Atlanta Journal and Constitution in March showing that 69 percent of voters in Southern states said they "would not consider" voting for Mr. Robertson.

The negative opinion was particularly disturbing to the Robertson forces since his strategy relies

heavily on support from the South because of its religious and generally conservative heritage.

To separate him from the others, Mrs. Snapp is arranging nonreligious television appearances for the candidate. She is also urging reporters to refer to him as "Robertson" rather than "the Reverend Robertson" and to call him a "Christian broadcaster" rather than a "television evangelist."

Mrs. Snapp is also using an advertising technique for product analysis — the product in this case being Mr. Robertson — to find out just what a cross section of the population thinks of him and the best way to sell him to the voters.

Advertisers use this "focus group" technique to determine the pluses and minuses of new products, packages or advertising concepts. For a new detergent for example, a group of housewives might be assembled to discuss its

name and the color of the package.

In Mr. Robertson's case, Mrs. Snapp assembled groups of 10 to 12 people representing a roughly demographic cross section of the voting population.

The problem, she said, seemed to be that "they don't really know who Pat is. They confuse him with other people, with Falwell and Swaggart."

But after seeing clips of the "real Pat Robertson," Mrs. Snapp said, most respondents realized that their earlier impressions of him had been wrong and most of them were now favorably impressed.

Since announcing in September that he was making an exploratory bid for the Republican nomination for president, Mr. Robertson has appeared only occasionally, partly because of his campaign schedule and partly in deference to the Federal Communications Commis-

sion's regulations requiring equal time for opposing views.

Although he has not officially declared that he is a candidate, the agency can rule at any time that he actually is a candidate and is therefore subject to its rules.

But Mrs. Snapp said contributions to Americans for Robertson, the committee raising funds for his campaign, had shown no falloff. To date, she said, more than \$7 million has been raised.

GHORBANIFAR: Hearings to Center on Role of Iranian Expatriate

(Continued from Page 1)

erend Benjamin Weir, the first American hostage released in 1985, had to be seized from his captors by Iranian emissaries. There was no way to verify this.

Iranian officials, he said, were infuriated by a shipment of obsolete American anti-aircraft missiles from Israel in November 1985. He added that the bungled delivery, detailed in the Tower commission report last February, cast a shadow of distrust over all transactions that followed.

Mr. Ghorbanifar contended that now was the time for the American government to make a deal with Iran for better relations. In interviews conducted last week, he said that preparations were under way for terrorist actions against Americans in the Middle East.

The question of how the operation unraveled last fall remains one of many mysteries. Mr. Ghorbanifar asserted that his reputation was gravely harmed when the Americans dropped him last summer for a new intermediary who sold weapons to the Iranian government at a lower price.

closed information about the arms dealings, shortly after he was replaced, to the Lebanese magazine Ash Shaara, which published the first account of the dealings last Nov. 3.

Nevertheless he said: "People betray me, I betray them. People are honest with me, I give them everything; if not, I cut their throat."

Two former U.S. government officials offered information that throws into question Mr. Ghorbanifar's denial about revealing the arms dealings.

They said that late last October, shortly before the Ash Shaara article appeared, the administration obtained a letter from Mr. Ghorbanifar to a leading Iranian official, Ayatollah Hussein Ali Montazeri, that described the visit to Tehran in May 1986 by Robert C. McFarlane, the former national security adviser.

These officials said they suspect that Ayatollah Montazeri in turn had a hand in exposing the operation. Mr. Ghorbanifar replied: "I write many letters every day. All the letters I write are explosive." But he denied sending any such letter to Ayatollah Montazeri.

Mr. Ghorbanifar also asserted that Mr. McFarlane was misinformed when he expected that all the hostages would be freed upon his arrival in Tehran in May 1986.

According to Mr. Ghorbanifar, there was never any such deal, and it was Mr. McFarlane who reneged by bringing only a small amount of spare parts for Hawk missiles, instead of 50 percent of the shipment, as he had promised. Richard V. Secord, the retired air force major general who helped arrange the shipment, has also said there was no Iranian promise to free the hostages before the talks.

Mr. Ghorbanifar said that he has long disliked the Central Intelligence Agency.

Some senior CIA officials distrusted him, too. After Mr. Ghorbanifar failed a CIA lie detector exam in December 1985, Clair George, the agency's deputy director for operations, said he should not be used in covert operations.

The White House, however, relied on him for most of the next year. And William J. Casey, the director of central intelligence, wrote later that Mr. Ghorbanifar

was worth retaining because he got results.

Many of Mr. Ghorbanifar's comments have been verified by participants and are consistent with what has been publicly revealed so far.

Mr. Ghorbanifar gave this account of the dealings: For him, the story began when he first made contact with Adnan M. Khashoggi, a Saudi Arabian arms dealer with ties to Israeli arms dealers and American officials.

After meetings in Israel that included Michael A. Ledeen, a National Security Council consultant researching the Iran issue, as well as Israeli arms dealers and Israeli officials, a deal was reached that was eventually approved by the governments involved.

Iran promised to stop aiding Shiite terrorists in actions against Americans, he said, and the United States said Israel could send TOW anti-tank missiles to Iran to establish for Iranian government officials that Mr. Ghorbanifar was truly dealing with senior American officials. Iran said it would work on freeing the American hostages.

On Sept. 14, 1985, after two ship-

ments of TOW missiles had been sent to Iran, Mr. Weir was freed.

Mr. Ghorbanifar said the Iranians were delighted by this transaction and eager for another deal.

Tehran next said it would work to free the remaining hostages. It would receive a shipment of 400 Hawk anti-aircraft missiles. Mr. Ghorbanifar said the Iranian military needed to shunt down high-flying Soviet reconnaissance planes that were taking photographs for Iraqi bombing raids on Iran.

The hearings this week are expected to focus closely on the November shipment, which involved an Israeli flight through Portugal and then to Iran. Included will be testimony about the possible illegality of using a CIA proprietary airplane for the shipment without a formal presidential finding authorizing the agency's involvement.

Mr. Ghorbanifar said that the Iranians were so pleased by the earlier TOW shipments that they changed their usual policy in November and transferred \$24 million to a Swiss bank account before the weapons were delivered.

U.S. Drops Indictment Of General Dynamics Over Anti-Aircraft Gun

By Howard Kurtz
New York Times Service

WASHINGTON — The Justice Department dropped a fraud indictment of General Dynamics Corp. over the Divad anti-aircraft gun after discovering military and company documents that undercut its theory of prosecution, according to the head of the department's criminal division.

"The government is standing up and saying, 'We were wrong,'" William F. Weld, an assistant U.S. attorney general, said Monday.

Mr. Weld said that it was "unusual for the government's view of the facts to change so radically that the government will abort the prosecution." But he said that it would have been "dishonorable" to do otherwise. "Nobody is happy about this," he said.

The dismissal of the charges was requested by the government late Friday and approved by a U.S. judge in Los Angeles on Monday.

General Dynamics, James M. Beggs, and three other present or former executives of the company were indicted on the fraud charges in December 1985.

At the time, Mr. Beggs, a former General Dynamics vice president, was the head of the National Aeronautics and Space Administration. The charges led him to resign from NASA.

Mr. Beggs said Monday, "I was left hanging out to dry. I feel the grand jury system is no longer a check on the prosecutors."

Mr. Beggs said that his vindication "took much too long," adding that, "It was expensive to live for 19 months without a job."

The indictment involved a \$39 million army contract to develop a prototype anti-aircraft gun from 1978 to 1981. General Dynamics lost the competition to build the weapon, which is also known as the Sergeant York, and the Defense Department canceled the weapon in 1985 after repeated test failures.

General Dynamics tried to hide \$7.5 million in cost overruns by illegally shifting excess costs to other government-funded accounts.

On May 19, the Justice Department dropped a three-year fraud investigation of General Dynamics submarine contracts. The latest action by the department prompted renewed criticism in Congress.

The dropping of the second General Dynamics case shows there's something drastically wrong with the way the Justice Department handles defense fraud cases," said Senator William Proxmire, Democrat of Wisconsin.

Senator Charles E. Grassley, Republican of Iowa, said the "incompetence" of the Justice Department "must be called into question."

Marine Who Fled to Australia In 1970 Is Given a Discharge

WASHINGTON — A U.S. Marine who deserted in Vietnam in 1970 and returned to the United States from Australia this month is being discharged from the Marines after admitting he was guilty of desertion, Marine Corps officials said.

Private First Class Douglas Beane, 40, will be allowed to leave the corps "under other-than-honorable conditions," but without further punishment, officials at the Marine base in Quantico, Virginia, said Monday.

Mr. Beane had lived in Australia for 17 years.

He voluntarily returned to the United States on June 9 to see his father, who is ill, in Rutland, Vermont.

The officials said that the charges of desertion during wartime, which could have resulted in a death penalty on conviction at a military trial, were dropped on the recommendation of military legal officials and Mr. Beane's commanding officer.

A Marine statement said that he also had admitted guilt in "offenses which occurred in Vietnam in 1969 for which he was facing trial when he deserted."

At the time, he was facing a court-martial on seven charges relating to participation in a black-market operation and allegedly threatening to kill a fellow marine.

At the time, he was facing a court-martial on seven charges relating to participation in a black-market operation and allegedly threatening to kill a fellow marine.

Israel to Extradite Jew to France

United Press International

JERUSALEM — The Israeli Justice Ministry has ruled that a Jew he returned to France to face legal action on his conviction there in the gangland-style murder of an Arab.

An order signed Monday by the justice minister said William Nakhsh, 25, should be extradited without delay, a ministry spokesman said.

The subject of the extradition, convicted of the 1983 slaying of Algerian-born Abdel Ali Hakkar, 20, in France, said that he fears death at the hands of Arabs in prison if he is sent back to France.

PEKIN, AUGUST 20, 1987

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North Is Said to Conceal Secord Favor

WASHINGTON — Lieutenant Colonel Oliver L. North tried to conceal that an elaborate security system at his home was financed by Major General Richard V. Secord, whose private operation handled proceeds from the Iran arms sales, a former CIA official testified Tuesday.

Glenn Robinette, a former CIA employee, described his installation of an electronic gate and other devices. He said that Colonel North asked him to send him the backdated bill for part of the \$16,000 cost only after the Iran-contra affair was revealed.

In another development, the congressional committee investigating the affair appeared to deal in an impasse over working out a deal for Colonel North to testify in public, with some members angered

over proposals that the panels make concessions to Colonel North.

Colonel North had refused to testify privately before giving public testimony.

The committees met separately at mid-day. The House panel reported that it had not reached agreement.

Representative James A. Conner, Republican of New Jersey, said that some members were insisting

on the private session with Colonel North.

Documents released by the committees showed that payments had been funneled to Mr. Robinette by a Swiss investment banker who managed the assets of General Secord's private network aiding Nicaraguan rebels.

Mr. Robinette said it was his own decision in December to comply with Colonel North's request, backdating the bill and listing only half the cost of the system.

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OPINION

After NATO: The Drums of Decoupling

By William Safire

LONDON — The George M. Cohen phase of American foreign policy is ending. "Send the word, send the word over there," said his World War I lyric, concluding "and we won't come back till it's over, over there."

The struggle to defend democracy in Western Europe is not over, despite the seeming end of Cold War II, but we are coming back. The Yanks — a third of a million troops — will be gradually "drawn down" in the decade ahead.

That is ritually denied by President Reagan, and it will not happen on his watch. But the tectonic plates underlying the Atlantic alliance have shifted, and the next administration, Republican or Democrat, will abandon the old nuclear umbrella myth and face the new reality: The United States will not guarantee to respond automatically to a Soviet attack on Western Europe with an attack on the Soviet Union.

Why not? Has NATO not successfully deterred the Russians for two generations, and is there not strength in unity? Yes. Will a post-NATO world not encourage the Europeans to become neutralist, or invite the Kremlin to roll its tanks westward? Not necessarily.

The fact is that America's European allies see NATO as a strictly regional pact with the Iron Curtain as its front line. When the United States acts to stop Communist expansion in Central America, Europe disapproves; when it attacks a center of terrorism in Libya, France (which is not a NATO member, but benefits from its existence) refuses oversight; when danger looms in the Gulf, Europe is willing only to hold America's coat.

We Americans used to accept Europe's parochialism because we thought of the Iron Curtain as our front line, too; it was in the U.S. interest for American troops to man the ramparts in West Germany. We told ourselves it was actually cheaper to keep our men in Europe than to house them in the United States, assuming illogically that U.S. Army troop levels would be the same after we decided to update our strategy.

But approaching the millennium, Americans are realizing that their front line is the skyline; the country's primary national defense interest is to protect itself from the threat of incoming missiles. Its global mission is better served by investing in a new nuclear shield than in manning old casemats in West Germany.

The "star wars" strategy is here, it is irrevocable and it is already making its impact on the plans of European leaders. They know that a survivable superpower — not wholly impregnable, but not naked to nuclear attack — could then help defend their borders, by reinforcement or by threat of escalation elsewhere.

The regional defense strategy of the West is now changing as an immediate consequence of its greatest victory. The Soviet intermediate-range missile bluff of the '70s was met with European-American resolve in the '80s; Moscow is now willing not only to restore the status quo ante, but to lower the nuclear ante — to remove shorter-range missiles.

Mr. Gorbachev's plan is simple: Since Western Europe could not be intimidated by Soviet nuclear missiles, then all of Europe should be denied of nuclear weapons, leaving the West vulnerable to old-fashioned Soviet tanks and planes and armies. The military means are different, but the Soviet goal of extending its domination of Europe further west is the same.

Now it is up to the Europeans to respond as a regional power should. They need not await some utopian federation; right now, the population and total GNP of the West European nations are larger than the Soviet Union's. America can help by seeking to negotiate down Soviet conventional strength, but Mr. Gorbachev is unlikely to give away his regional advantage for nothing.

ESSAY

How to counter the new conventional threat? Experience has shown that the Russians will discuss arms reduction only when their adversaries begin building defenses. That means not merely replacing the withdrawing Americans, but increasing and improving the forces needed to make a Soviet thrust too costly to undertake.

All the old fears of the consequences of recognizing reality, of a sinking of spirit and a rush to accommodation with communism, are losing relevance. Paris and Bonn have been shocked into talking about an integrated force; good. The era of defense dependency and its resentment is ending; the drums of decoupling are drum-drumming everywhere.

Europe and America need each other as much as ever, but with a different mutuality of reliance — the European states to defend their eastern border and free-market interests in specific regions, the United States to apply its strength to help freedom prevail around the globe.

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LETTERS TO THE EDITOR

Voting Selfishly, of Course

Regarding the news analysis "Britain's New Political Center: The 'Haves' Back Thatcherism" (June 13):

The naïveté of Howell Raines is astounding — or does he speak with tongue in cheek? He talks of Prime Minister Margaret Thatcher's appeal to voters' selfish interests. When have voters ever voted for someone else's interests?

The voters have never forgotten the days when, under Labor rule, with 30 percent inflation, the country was very near to bankruptcy. Nor do they forget that there are those within the Labor Party whose sole ambition is to reduce the whole country to "have nots," and thus put us on the sure road to communism. Neil Kinnock (a sincere man) would be deposed within a week of coming to power and be replaced by one of the hard left, who are keeping out of sight at the moment.

The Alliance grouping of Liberals and Social Democrats destroyed itself by having nothing to say except strident personal attacks on Mrs. Thatcher. The electorate are not fools; they know all about Mrs. Thatcher but, with the prospect of the country in mind, who else could they vote for?

LE ALLWOOD, Le Château d'Oléron, France.

Pornography Scandal

Regarding "15th Is Arrested in Pornography Ring in Brussels" (June 20), I would like to make the following clarifications: The persons arrested were members of the national committee for UNICEF and not of the organization itself. National committees are autonomous structures organized mostly in industrialized countries to support UNI-

CEF's cooperation in developing countries through advocacy and public information as well as fund-raising activities and sales of greeting cards.

Jozef Verbeek and Michel Felu were not UNICEF officials as such but employees of the national committee for Belgium. Furthermore, Mr. Felu was not a volunteer but employed, with others, as part of the unemployment reduction program in Belgium.

UNICEF is deeply concerned with the events in Brussels and firmly condemns these and all physical and moral attacks on children's dignity. The director of the national committee has been suspended pending the results of the inquiry undertaken by the Belgian legal authorities.

VICTOR SOLER-SALA, Director of UNICEF, Geneva Office.

Venice, for Tea and Photos

Just how much more of this summit garbage must the world suffer through? The Venice media event between these so-called leaders resulted in nothing but meaningless piffle regardless of the cheerleading twists they tried to put on it. President Reagan caves into Prime Minister Yasuhiro Nakasone, Prime Minister Thatcher drops by for tea (and photo), and Chancellor Helmut Kohl feeds some overweight pigeons.

If these biggies really wanted to pull off something productive, they might have tried to have Matthias Rust sprung from the Kremlin poky.

As it all turned out, all we got was another terminal case of the ZZZs.

CHUCK PAINTER, Rome. I am an Italian and as such I know of the waste of public money. During President Reagan's visit to it-



Cartoon by Danziger, The Oregon Source

The Cruelty of the Bullring

Your edition of June 3 shows a photograph of a bull semantically during a pass at a matador in Madrid. Contrary to the would-be caption, "Topsy Turvy," the text describes something that seems to me to be anything but funny: "The bull's horn was rammed into his head but the fight went on."

Increasingly, people in Spain today are recognizing bullfighting as cruel and barbaric, and quite in contrast with the finer things of Spanish culture. I think you should be more sensitive to such situations.

JOAN KENNEKE, Vienna.

Working Better Together

I enjoyed "Superconductor Search: A Race and an Obsession" (May 19). But the remark by a physicist at Bell Laboratories has been bothering me. He said: "I suspect that the first products will be from Japan. Whenever individual efforts count, we have been leaders. Yet, when it comes time to turn ideas into products, we are lost."

The stereotype that Americans rebel at teamwork while the Japanese excel at it, and that Americans are creative indi-

vidual researchers while the Japanese are not, is untrue, and it can only harm relations between the countries. The Manhattan project and the Apollo moon shot are two striking examples of effective American teamwork.

The style of pursuing science and technology has evolved steadily, and while individualism is still important, group effort is practiced more and more in every country. Perhaps what is needed is a new vision incorporating individualism and groupism, to enable people of all nations "to turn ideas into products." Philosophers, please accept this challenge!

KENKICHIRO KOIZUMI, Tokyo.

Soft on History?

Regarding the opinion column "Has Europe, the Crippled Giant, Given Up on Itself?" (June 1) by James Rastor:

Is sane Sooty Reston going soft in the head or just resting his coat? His equation of 1787 America with today's Europe sounds like some provincial clown comparing contras to "our founding fathers." Both parochial and bogus.

MICHAEL KUH, Segovia, Spain.

A Generalist Philosophy

Regarding "The Medical Bits and Pieces Don't Add Up" (May 26):

The dilemma Ellen Goodman points out is due to mass hypnotism via the mass media, a modern Western disease to which, fortunately, we in the developing world are not yet exposed. As a broadcasting professional, I am swaying back to the generalist philosophy of life: deal with the whole person, not parts of the system.

A MAWAZ, Kuala Lumpur.

A Death, on the Longest Day, Of Someone Quite Particular

By David Glidden

RIVERSIDE, California — At the time it seemed a form of courtesy, to let the homeless have their bridges and their benches, even to give them a little money to help them slake their thirst. Otherwise they were left alone, as independent spirits. But they were also left to die, to perish with the same indifference that sustained them.

During the summer solstice, the longest day of the year, the sun rises while

MEANWHILE

the city is still dormant. But one long-ago longest day I found dreaming difficult, so I walked around Paris streets at 4 A.M. The street sweepers with their twig brooms were out, as were the garbage collectors and those who clean the gutters by laying down heavy rags next to street faucets to guide the stream first in one direction and then another.

A few remaining ladies of the night leaned against facades, making themselves conspicuous. Their clothing and facial paint revealed too much; what might have fascinated a man at midnight looked grotesque in the streaks of dawn.

In an alley an elderly woman was feeding some unwanted, mangy cats. She talked in loving tones to them, and for the time they were her pets, competing for her attention, rubbing up against her legs.

About that time the cafes opened their doors. The Algerian street sweepers and gutter washers gathered for a drink of some brightly colored liquor, yellow or green. And I walked into their cafe for a coffee and croissant.

Around six or seven, most mornings, I would head back to a Left Bank apartment to begin my day's studies. But on this particular June morning something happened. Crossing the bridge from the Ile St. Louis to the Ile de la Cité, I found police had gathered at my favorite viewing spot downriver. I asked what they were doing and was told it was not my concern. But I continued to watch all the same, as they began to drag the river.

Two police divers went down and came up with a stiffened body, his arms emerging first, stretched out like a diver's. It was the first time I had ever seen a dead man, and when I saw his face, I discovered that I knew him.

It had been a melancholy summer, that summer of '75, so I had taken to reading Henry James's "Ambassadors" in the late afternoons, sitting on a particular bench on the port side of the Ile St. Louis, below street level and just above the Seine.

Watching the barge traffic proved a distracting comfort. Those barges were also their pilots' homes, with families, pets and autos piled on the barges. On sunny afternoons laundry would be hung to dry; in the evenings I could smell the aroma of old-fashioned French cooking, rich in sauces and in cream.

There were water fowl on the river, with the current still strong from the spring rains. I used to look for a mother and her brood of ducklings, as she guided them from one Ile to another. They had taken up residence at the ivy-covered end of the Ile de la Cité, behind Notre Dame cathedral and at the spit of land that is now a memorial to the French who were deported to Nazi death camps in World War II. Such a place as this had finally found room for kindness and for refuge.

One moody day I came away from my distractions to discover a clochard sitting on the bench beside me, nursing his wine. It is said that in earlier days the Parisian homeless person, or clochard, was just an independent soul who preferred his life outdoors. Now most of them are alcoholics with nothing but old clothes to wear and bridges to sleep under.

This particular clochard struck up a conversation, asking why I was so quiet. No, he was not asking for contributions. Rather, he wanted to talk, to enjoy the summer evening air and a civil mood. When I did not at first reply, he did the next best thing and offered me a drink.

I declined but began to talk with him instead, about the river traffic, the weather and the ducks. It was a limited conversation; my French was not good and my companion wasn't sober. But he swore he understood everything I said and claimed my French was better than de Gaulle's. He cheered me up. I left the bench to have some dinner and bid my friend adieu. A few days later, on the summer solstice, the police found him in the Seine.

Until I had seen his face it seemed a considerable strategy, a form of Parisian politesse, to let the homeless be, but this person I had briefly known had died as a consequence of such consideration.

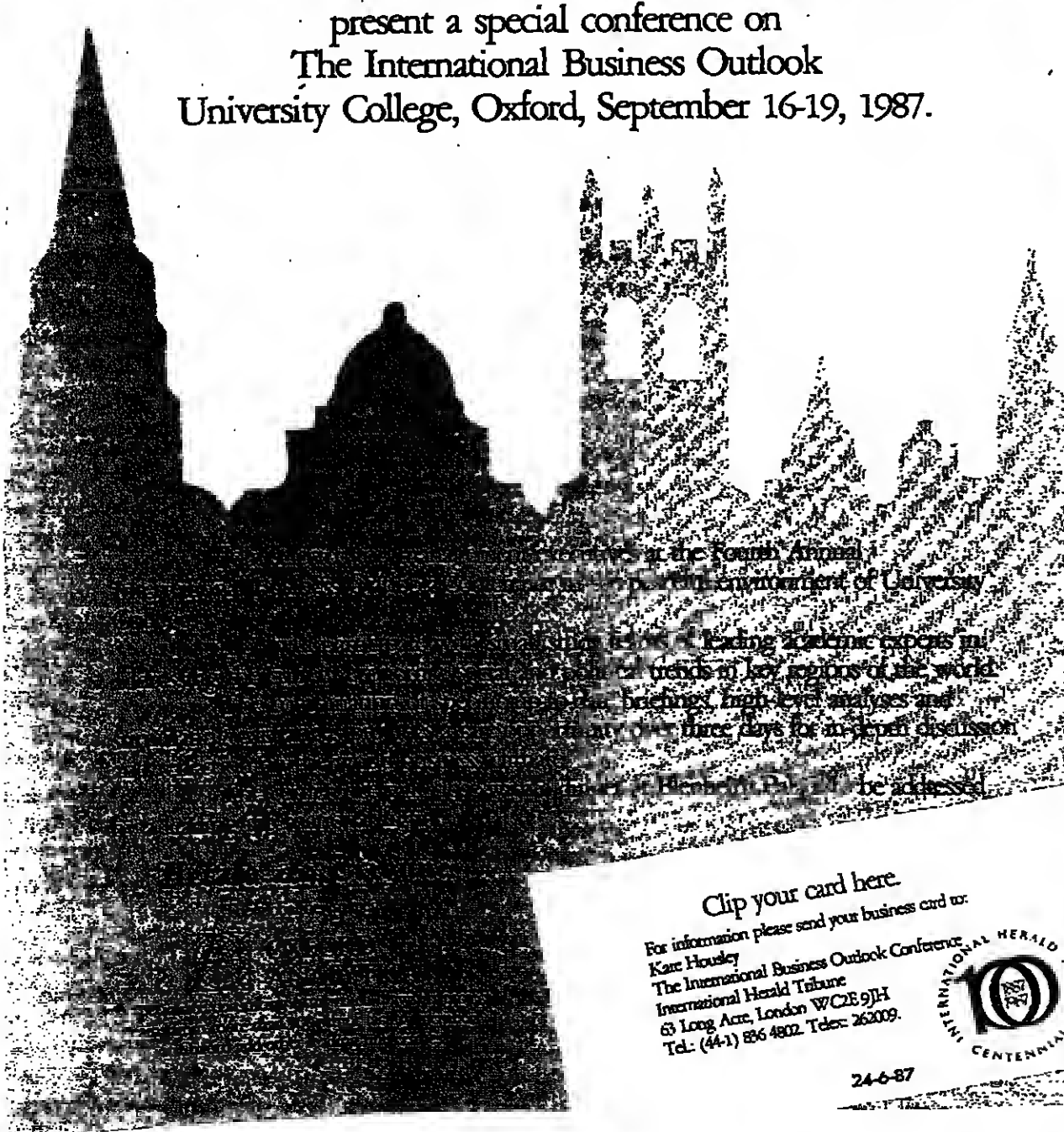
We rarely think how homeless persons spend their time or what they think about. Considering them from the outside makes it difficult to consider them from within. There is something quite particular about how these human beings spend time, sitting on their benches and reflecting on their lives. They notice little things, like ducklings swimming in the river, things few others attend to.

There is a certain sense of companionship and commonality among clochards and it extends to strangers too — a mutual consideration for the unhappy and those despairing of themselves. This is the fraternity of the homeless. Observing the buster around them, there is a special, slower sort of knowledge they enjoy that most never will discover, a knowledge that may well lend itself to melancholy and to drink, but a knowledge all the same. The only place for proper observation of such a spectacle is a stationary one, such as on a Seine riverbank.

The writer is a professor of philosophy at the University of California, Riverside. He contributed this comment to the Los Angeles Times.

An Invitation to Oxford.

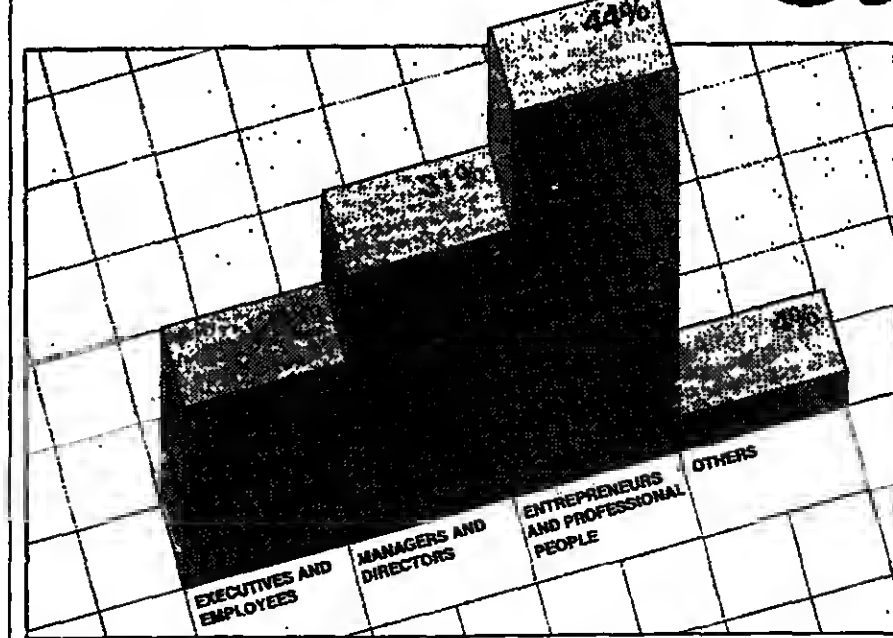
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The high purchasing power of II Sole 24 Ore readers is confirmed by the fact that 57% of them run two family cars (national average: 27%), and 20% of them actually own three. And more than half have a car with a capacity of over 1400 cc, the national average being 15%.

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Marine Guard to Be Charged With Perjury in Moscow Case

WASHINGTON — A former U.S. Marine guard at the U.S. Embassy in Moscow who told military investigators about alleged espionage and sexual exploits of two other guards is being charged with perjury, a spokesman for the Marine Corps said.

"Basically, he is accused of lying while being interrogated," Colonel Shotwell said. Sergeant Lonetree is awaiting a court martial on espionage charges stemming from his alleged delivery of classified documents and other items to Soviet agents while posted to the Moscow embassy.

Colonel Shotwell said that Corporal Williams has never been suspected of espionage himself but that he repeatedly gave conflicting stories as he was questioned about his knowledge of the activities of the others.

London Redevelopment Plan Falls Victim to a Landmark

LONDON — A plan to redevelop the heart of London's financial district that opponents said would have obstructed views of St. Paul's Cathedral was dropped by planning authorities Tuesday.

The plan would involve the demolition of eight government-protected buildings. It was the second design by a renowned architect submitted by Mr. Palumbo, and he is expected to appeal the planning decision.

Japanese Cabinet Backs Plan for Extra Spending

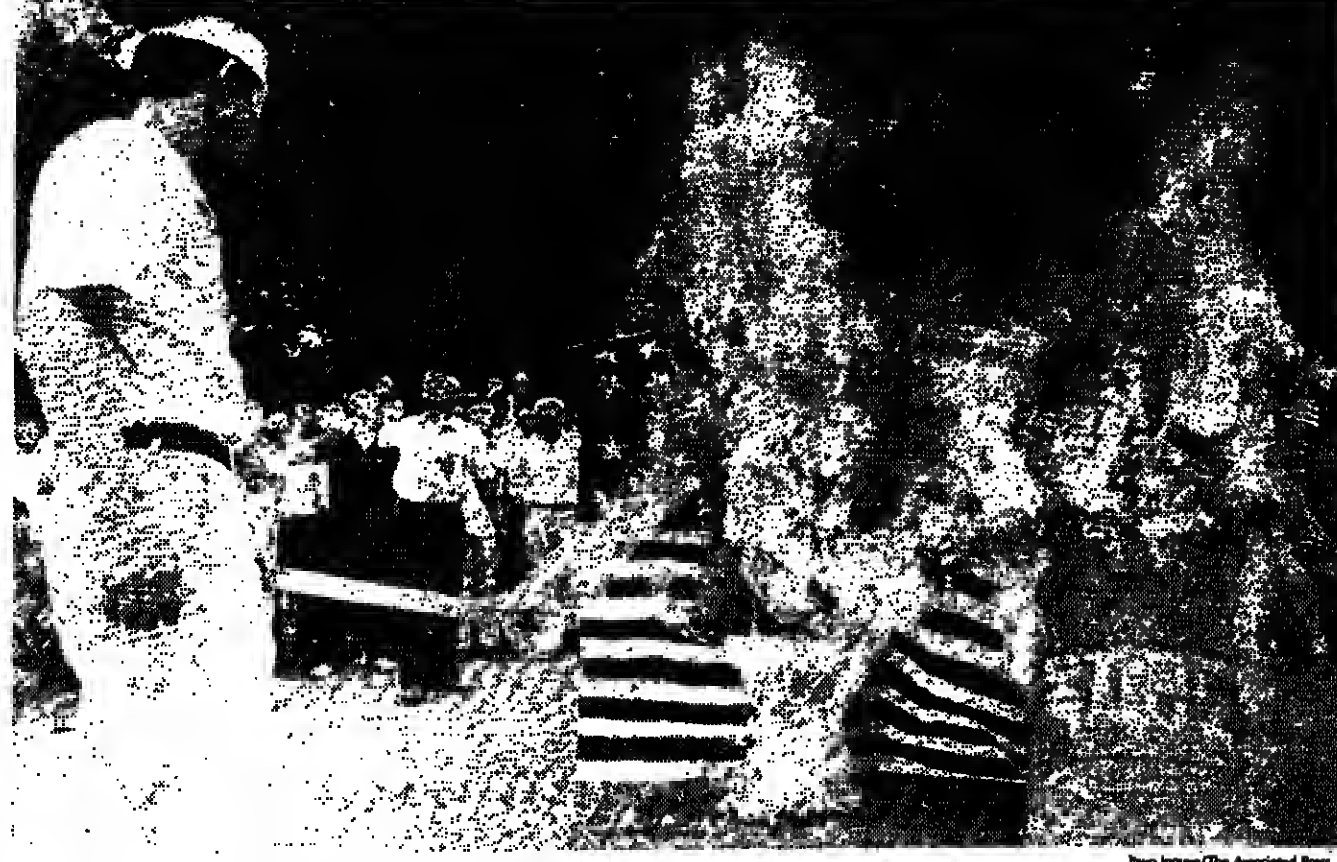
TOKYO — The Japanese cabinet approved the highest supplementary budget in 13 years Tuesday in an attempt to invigorate the economy and defuse foreign criticism of its huge trade surplus.

The plan would involve the demotion of eight government-protected buildings. It was the second design by a renowned architect submitted by Mr. Palumbo, and he is expected to appeal the planning decision.

Sharjah Sheikhs Agree To Reconciliation Pact

Sharjah, United Arab Emirates — Sheikhs Abdel-Aziz Bin Mohammed al-Qassimi, who tried to take over the Gulf emirate of Sharjah, reconciled Tuesday with his brother, Sheik Sultan Bin Mohammed al-Qassimi, who is the emirate's ruler.

Officials said the brothers agreed in a pact ending the weeklong coup attempt that Sheik Sultan is the legitimate ruler and Sheik Abdel-Aziz is crown prince and managing director of the emirate's executive body.



Students burned effigies of President Chun Doo Hwan and his designated successor, Roh Tae Woo, in Seoul on Tuesday.

KOREA: Chun to Meet Opposition

(Continued from Page 1) power plants in Yonggwang, 150 miles (245 kilometers) southeast of Seoul. He made his first public remarks on the crisis at the opening.

On Thursday, he will meet with Kim Young Sam. About 20,000 radical students at Yonsei University met Tuesday and decided to go ahead with a march Friday in Seoul.

"Attempts to solve problems by resorting to violent and illegal means will serve no one's interest," he was quoted as saying in local newspapers.

A resolution approved at the rally said the students would march on the presidential Blue House and warned against resorting to martial law or other strong measures.

Mr. Chun has said he would step down as president in February, if the formal nomination by the ruling Democratic Justice Party on June 10 to replace him with Roh Tae Woo, his close associate, that prompted the demonstrations.

Police announced Tuesday that 12,686 people had been detained since the protests began but that most had been released.



Kim Young Sam, left, met Tuesday with Kim Yoon Hwan, an aide to President Chun Doo Hwan, to arrange the talks.

Mail Service In Canada Disrupted By Strikes

By Herbert H. Denton, Washington Post Service. TORONTO — Mail service across Canada, which in normal times can be slow and erratic, is in disarray as letter carriers but one city after another without warning in a series of brief but sometimes violent rotating strikes.

The police and strikers have been injured in scuffles in Calgary, Toronto and St. John's, Newfoundland, as the strikers attempted, sometimes successfully, to block mail trucks and vans carrying replacement workers who were hired since the strikes started June 16.

Striking letter carriers broke into a Montreal postal station last week, overturned mail racks, smashed chairs, trampled on letters and packages and beat up temporary employees brought in to replace them.

Sympathetic sorters and other unionized postal workers still working have said they are deliberately misdirecting some of the mail that is still going through.

Leaders of Canada's major unions have given strong backing to the Letter Carriers Union of Canada, which is resisting the demands of the government-owned corporation, Canada Post, to scale back the work force and after overtime and work rules. Faced with a \$100-million-a-year operating deficit by Canada Post, the government of Prime Minister Brian Mulroney has taken a tough line in negotiations.

Mr. Mulroney's government has been attempting to balance the books by closing hundreds of rural post offices and by eliminating home delivery in some new suburban subdivisions.

WEINZACKER ARRIVES IN ATHENS. ATHENS — President Richard von Weizsäcker and Foreign Minister Hans-Dietrich Genscher of West Germany arrived here on Tuesday for an official four-day visit.

VW: Toyota, German Automaker Join Forces on Trucks

(Continued from Page 1) ket the Hi-Lux pick-up truck in Europe through their distributorships.

had been rumored to be considering closing it. Separately, VW announced Tuesday that its worldwide sales in the first five months of 1987 were down 3.6 percent from a year earlier, to 1.15 million vehicles, mainly because of a sharp drop in sales in the United States and Brazil.

period, to 106,000, because of the country's economic difficulties, while U.S. sales fell 23 percent, to 92,000, largely because of the drop of the dollar.

MONTENEGRO: For Thousands, a Roundabout Road to a Better Life

(Continued from Page 1) living here with his wife and five of his six children, all born in America, on a disability pension from Chrysler Corp.

He has added a swimming pool to his parents' house and he dreams of returning to the United States when his children are old enough to work and support themselves.

Yugoslavs need no visas to enter Mexico, but they must show the immigration officials a return ticket. In earlier years, Mr. Greg said,

House Democrats Pass Budget That Confronts Reagan With Tax Increase

WASHINGTON — The House of Representatives on Tuesday passed a budget for fiscal 1988 written by Democrats to confront President Ronald Reagan with a tax increase while rejecting his call for increased military spending and trims in domestic programs.

The \$1 trillion spending plan was approved by a vote of 215-201, with three Republicans in favor. Final enactment by the Senate is expected Wednesday.

Despite the tax increase, the plan would leave a deficit of nearly \$34 billion for the year beginning Oct. 1, well above the limit Congress

but he has repeatedly threatened to veto the taxes mandated by the measure. The Democratic plan states that income tax rates should not be increased.

Democratic leaders concede that even if Congress passed a tax bill, they could not override a veto.

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Mail Service in Canada Disrupted By Strikes

Jersey Islands

Channel Islands

Evolution of an Offshore Center

Stability Is Key to Financial Future

By Peter Body

ST. HELIER, Jersey — Although part of the British Isles, the Channel Islands had no direct involvement in the recent British general election. A collection of seven inhabited islands closer to France than England, the Channel Islands are not represented at Westminster and the two principal islands of Jersey and Guernsey have their own parliaments, which make their own laws and, most importantly, fix their own taxes.

Their allegiance is to the Queen of England, who is still treated in the islands as the Duke of Normandy, emphasizing the historical link forged in 1066 between this former part of the Duchy of Normandy and the English Crown.

The British government has no direct say in the internal administration of the islands, although it does look after their defense and foreign affairs, services for which the islanders have only now agreed to help pay for.

The long debate over a defense contribution in the island's parliaments, known as the States, highlighted the rather peculiar constitutional relationship that exists with the United Kingdom.

The British government had requested that the islands help pay for defense, stressing that it was only a request, but pointing out that the islanders benefited as much from the protection of the British nuclear umbrella as do the inhabitants of Swindon or Swansea.

It was the kind of invitation that the islands could not really refuse, and they agreed in principle to make a contribution, although some islanders pointed out that being defended by Britain did not stop them from being occupied by the Germans in 1940.

The only stumbling block was how the contribution was to be made, because a direct payment from the islands to Britain would smack too much of taxation without representation.

Some formula had to be found of making a payment while emphasizing the islands' independence, and lengthy discussions followed concerning the possibility of a "payment in kind," ranging in Jersey's case from buying and manning a minesweeper to establishing a search-and-rescue helicopter service.

Guernsey agreed to pay for the upkeep of a breakwater in Alderney originally built for the Royal Navy in the 19th century, and which some people said should have been paid for by Guernsey in any case.

After several States debates, Jersey eventually decided on an initial cash payment of £800,000 (\$1.28 million) with a territorial army unit to follow, representing only a tiny fraction of what British residents pay per head for defense.

Although a basic principle was that state, many islanders believed that the British government was only asking for a defense

would be persuaded to use their financial services.

The claim is that it was only because of prudent budgeting and being naturally careful with money (some might even say mean) that the islands have been able to provide an efficient administration and a wide range of government services on an income tax rate of only 20 percent, with no value added tax, capital gains or inheritance taxes.

Having said that, however, the business partly attracted by low taxation is now so important to the economy that it is incon-

stant in life and there are few young fire-

brands pushing for radical changes. Despite the presence of a sophisticated finance industry, things tend to move at a fairly leisurely pace in these island communities. Directors and administrators of Jersey's 24,000 companies are still waiting for a new Company Law to replace one that dates back mainly to 1861.

This delay is not through any lack of effort, but because of the lengthy discussions that have taken place with interested parties and the desire to provide sufficient controls over people involved in Jersey companies without stifling business.

The authorities have also been busy with a large number of other commercial laws in recent years, such as a Trusts Law, an Insurance Business Law that allows captive insurance companies to be set up, a Security Interests Law that widens the scope for lending and a Data Protection Law.

But the islands have not been slow to realize their potential as offshore finance centers, and finance is now the major contributor to the islands' economies.

A decade ago, the islands could have been more accurately described as tax havens, because they relied primarily on British residents and companies trying to avoid high taxation at home. Now they are much more international finance centers, no longer dependent on Britain but attracting business from all over the world.

Jersey's 54 banks have more than £25 billion in deposits, three-quarters of which is in foreign currencies, and Guernsey's banks hold over £9 billion in deposits. Also, of the 3,040 new companies registered in Jersey last year, two-thirds were owned by individuals and companies resident outside Britain.

Nevertheless, some Labor members of Parliament in Britain still complain about the tax revenue lost by the government through the use of the islands by British companies in particular. This campaign is being led by George Foulkes, who represents a mining constituency in Scotland.

If the Labor Party returns to power, he and some of his colleagues have threatened to do away with the islands' "tax privileges" by altering their constitutional position and, in particular, extending British Company Law to the islands.

It is generally accepted that the House of

Continued on page 11



A view of High Street, St. Peter Port, Guernsey.

International Influx

Banks See Growth in Securitization

By Jane McLoughlin

ST. HELIER, Jersey — Richard Le Saout, president of the Jersey Bankers' Association, looks back and marvels that since the birth, 25 years ago, of "our financial-center baby," banking in Jersey has reached "a size at which it is seen as a fairy godmother by some, and a monster by others."

In 1973, there were 29 members of the Jersey Bankers' Association. They had a staff of 541 and contributed an average £2,216 (\$3,546) per employee to the States (government) of Jersey. Only four were foreign. Together, they held assets of £1 billion. Today, 58 banking institutions, including 27 foreign units, employ 3,650 people in banks and 2,200 in associated services. They pay an average £10,000 per employee to the States. Banking and financial services now employ 17 percent of the total Jersey work force of about 45,000 in a population of 80,000.

Banking has undergone several cycles of emphasis since Colin Powell, the economic adviser to the States and the man widely credited with engineering Jersey's banking boom, first arrived in the 1960s on an initial five-year assignment to manage the economy.

"Then, when the first merchant banks came in, it was on the backs of people coming out of the colonies with funds they wanted to put in a safe place," Mr. Powell said. "They wanted to move their money back to a British environment, but they wanted the tax advantages of an offshore center."

"There was a build-up of U.K. residents, too, using us for trusts within the exchange control area. So most of the banks coming in were from the U.K. The influx of the international banks started after the scheduled territories were redrawn in 1972, and people wanted to offer a service within the sterling area but not in the U.K. And then in the mid-'70s, there was a burst of business on the international loan side, with the attraction of lending where margins were taxed at 20 percent, rather than 52 percent in the U.K. and similar rates elsewhere."

That loan business has become a less important part of Jersey's banking business, with a consequent drop in total assets held to £25 billion. But almost 90 percent of the business on international financial markets is now in securitized form, and though this has led to a decline in the demand for offshore centers to syndicate large loans, some Jersey bankers see securitization of debt as a future growth area on the island.

In the meantime, though, the main growth area has been in personal banking. Jersey now offers low tax (20 percent across-the-board income tax and corporation tax of £500 a year), political stability and a comprehensive range of fund management services to the high-net-worth clientele the banking community cultivates.

Jersey banking is ultra-respectable now. The old offshore image of the island as a tax haven and a parking place for dubious money has been laid to rest. States' policy and the system of checks and balances as the biggest and most reputable names in international banking watch each other in this small community for any infringement of Jersey's united image just

tify the claims of Robin Rumbold, of Coopers and Lybrand, an adviser to the States: "We have avoided speculative and high-profile investment schemes, and have therefore suffered no collapse of market. We now offer a bona fide asset protection service of proven high standing."

Brian West, assistant manager of Lloyds Bank in Jersey, said: "The clearing banks have responded to the changing demand and now provide the full range of products to meet the needs of an international clientele. This exists side by side with the traditional domestic banking services required by our residents and tourists. There is no shortage of new business and we can therefore afford to be selective

Banking has reached 'a size at which it is seen as a fairy godmother by some, and a monster by others.'

about what we accept. For instance, we are very conscious of the problem of 'hot' money. If we're uneasy about a large sum of money or can't take up references, we turn it away. And that route of greater selectivity may well be our response to the shortage of resources. The staff we recruit and train here are very highly skilled — indeed, 20 percent of all those who pass the Chartered Institute of Bankers Trustee Diploma are from Jersey."

This reputation has been won in spite of the ease and the apparent lack of bureaucracy involved in setting up banking services in Jersey, particularly in trust administration and fund management, which are booming through the growth of private banking.

Deposit-taking bank services must provide accounts to the States, but that is the only aspect — and the extent — of licensing. The weeding out of dubious business ventures comes earlier, for the States has given banking room only to the more reputable international names. They preserve the integrity of the banking community by ruthlessly screening potential new business in Jersey under the Regulation of Undertakings Law.

"It amounts to a license for new business," Mr. Powell said. "If someone comes and wants to set up here, and we do not think them suitable, we use that law to prevent them getting in at all."

The Jersey Institute of Bankers, which has an educational function, puts 200 to 300 high

school graduates through the advanced trust administration and fund management courses now offered at the Jersey College of Further Education. The States may also contribute to the cost of residents' training abroad. But there remains a gap between supply and demand, and the banks are trying urgently to cooperate with the teachers both in supplying bank personnel to teach and training teachers in the banks.

For Jersey's technological revolution in banking could be a two-edged sword. While existing employees must learn to be more productive with the limited resources they have, there are already signs that costs in the City of London could become so high that international banks (particularly those with few existing European outlets) could center operations in the Channel Islands, with instant electronic links to the world's financial hubs.

Electronics make it possible to operate in London, Tokyo, New York and Frankfurt from the islands. The recent move by a Canadian bank, Dean Witter, out of London and into Guernsey is seen as the start of just such a trend.

So it is success that raises the only faint clouds over Jersey's banking boom. There is no shortage of business, but the banks are beginning to be selective over the type of business they want. They are already moving away from low-profit, labor-intensive activities. But the Jersey banking community must also continue to expand within the bounds of its limited resources. There is an American market to be wooed away from Switzerland; the Far East, too, offers opportunities for growth.

"Japan is a very important market, and I think Jersey banks will point more funds that way, though at the moment Luxembourg has the advantage of being co-members with Japan of the OECD," says David Humpleby, of Hill Samuel, merchant bankers. "But several Jersey banks now have links with Japanese finance houses, and I think others will also take on Japanese partnerships."

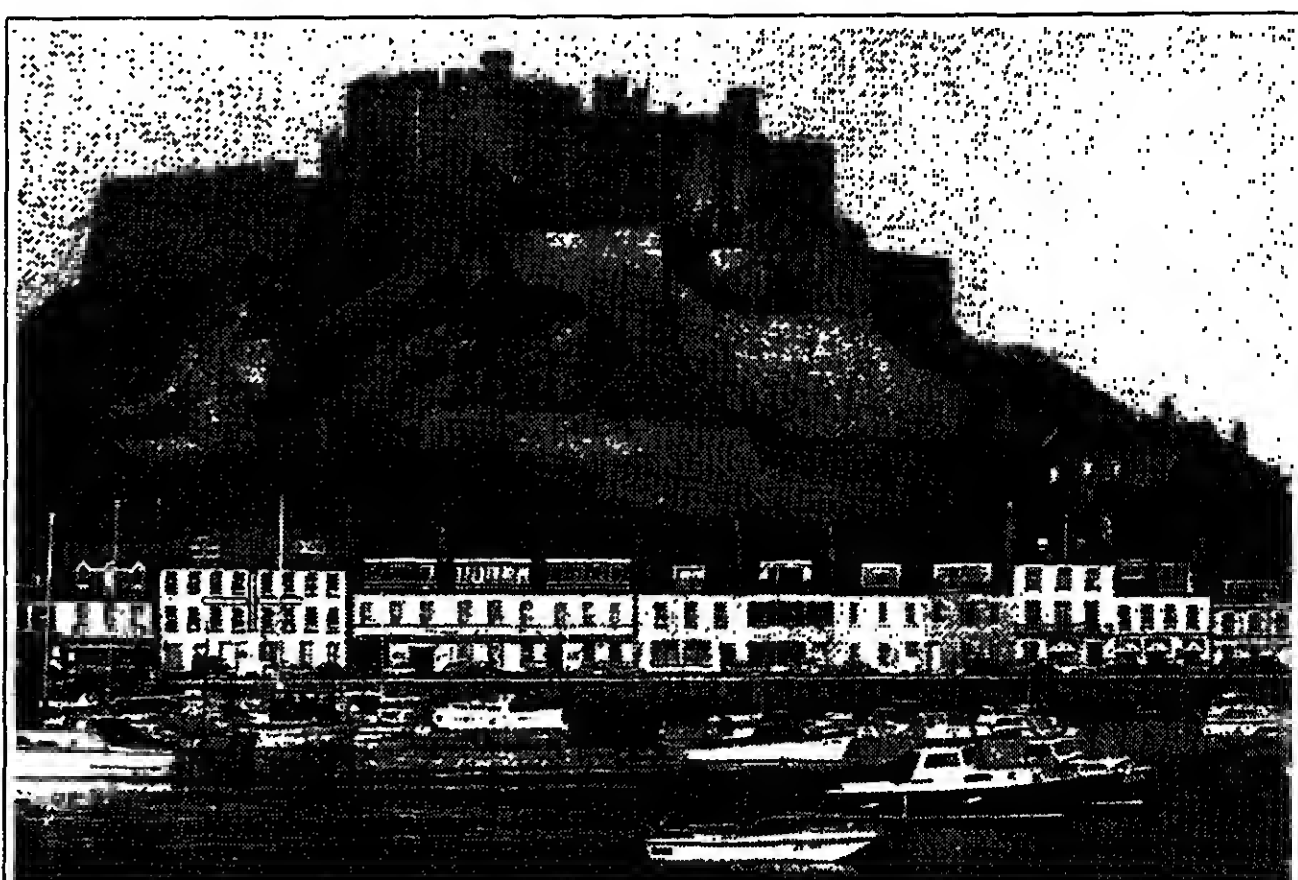
"Banking in Jersey is going to have to get more out of existing resources," Mr. Powell said. "We have not closed our doors to new banks, but development must be in the whole island's best interests. It's a question of whether to use resources to expand existing activities or to introduce new ones. We feel that new business must offer something that provides a diversification on what already exists."

One such diversification is building societies (home finance institutions), and the Abbey National has been negotiating for one of the few ways of entering the Jersey market place now — by acquisition.

"U.K. building societies can now tap overseas funds, and expatriates who have a tradition of placing funds with them could want representation of their traditional function here, mainly in collecting deposits; so we will cover any such niches as they arise," Mr. Powell said.

It is clear that among Jersey bankers, the customer is king. And as they can pick and choose their clients, only those with a king's ransom are going to qualify to be customers.

JANE MCGLOUGHLIN, a journalist specializing in economics and industry, contributes to The Guardian and The Daily Telegraph.



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Tourism a Mainstay of Economies

By Willa Murray

ST. PETER PORT, Guernsey — More than a million people visit the Channel Islands every year to whom the financial activities of St. Helier and St. Peter Port mean nothing. They come for the scenery, the sport and the interest of exploring these fascinating outposts of the British Isles.

Tourism remains a mainstay of the islands' economies, directly, by supporting hundreds of mainly family-run hotels and guest houses, and indirectly, by the money and employment it spreads throughout the whole community.

Without the tourist trade many of the facilities that make the islands attractive as financial centers would not exist — the year-round daily air links with the British mainland and France, the four-star hotels and gastronomic restaurants, the wide range of sporting amenities and cheap car rental (as little as £4 to £5 [\$6.40 to \$8] a day in Guernsey).

Annual visitor spending in Jersey is estimated at around £200 million and in Guernsey at £65 million, with tourism accounting for 37 percent of Jersey's gross national product and 24 percent of Guernsey's.

In the smaller islands of Alderney and Sark, tourist trade is the

Without the tourist trade and the wide range of sporting amenities, many of the facilities that make the islands attractive as financial centers would not exist.

main economic support apart from the revenue generated by well-to-do settlers.

Before the emergence of the offshore finance industry, selling vacations was far and away Jersey's biggest business. In Guernsey, it tended to take second place to horticulture, but with the decline of the tomato trade as the European Community opened up the British market to Dutch competition, tourism has moved well ahead of horticulture as an export earner.

Up to the 1970s, the Channel Islands were able to count on a loyal holiday market in Britain, where they had the image of being sunny and more exotic than home resorts and something of a duty-free paradise.

Since then, they have had to face growing competition from

low-cost package holidays to Mediterranean and North African resorts. The trend is for the Channel Islands to become increasingly a second-holiday and short-stay destination for the British.

The islands have responded by looking to the Continent for more of their trade. Jersey has its own tourist office in Paris, as well as in London, and Guernsey has made a particularly strong drive in the Netherlands.

The islands now have direct flights in the tourist season from Amsterdam, Düsseldorf, Frankfurt, Geneva and Zurich. Car-ferry services operate from St. Malo to Jersey and Guernsey, and from Cherbourg to Guernsey, while hydrofoils and other passenger ferries link them with the Normandy and Brittany coasts.

Today, Jersey draws about 20 percent of its visitors from non-British markets, and Guernsey about 15 percent. But the islands' tourism prosperity remains overwhelmingly tied to the British market, where they still have a strong appeal as no-passport holiday destinations that combine a whiff of France and low-duty, VAT-free prices with a reassuringly familiar English environment.

After a disappointing early season last year, the Jersey Hotel and Guest House Association commissioned a £25,000 survey of the industry from accountants Deloitte Haskins & Sells. Although critical in many respects of the island's marketing efforts, the report was optimistic about the holiday product itself, which it saw as "well placed to meet the potential demand in the European travel market in the 1990s."

Due shortly is another report, commissioned this time at a cost of £50,000 from consultants Pannell Kerr Forster Associates by Jersey's Tourism Committee. This will set out a five-year plan for developing the island's tourist trade.

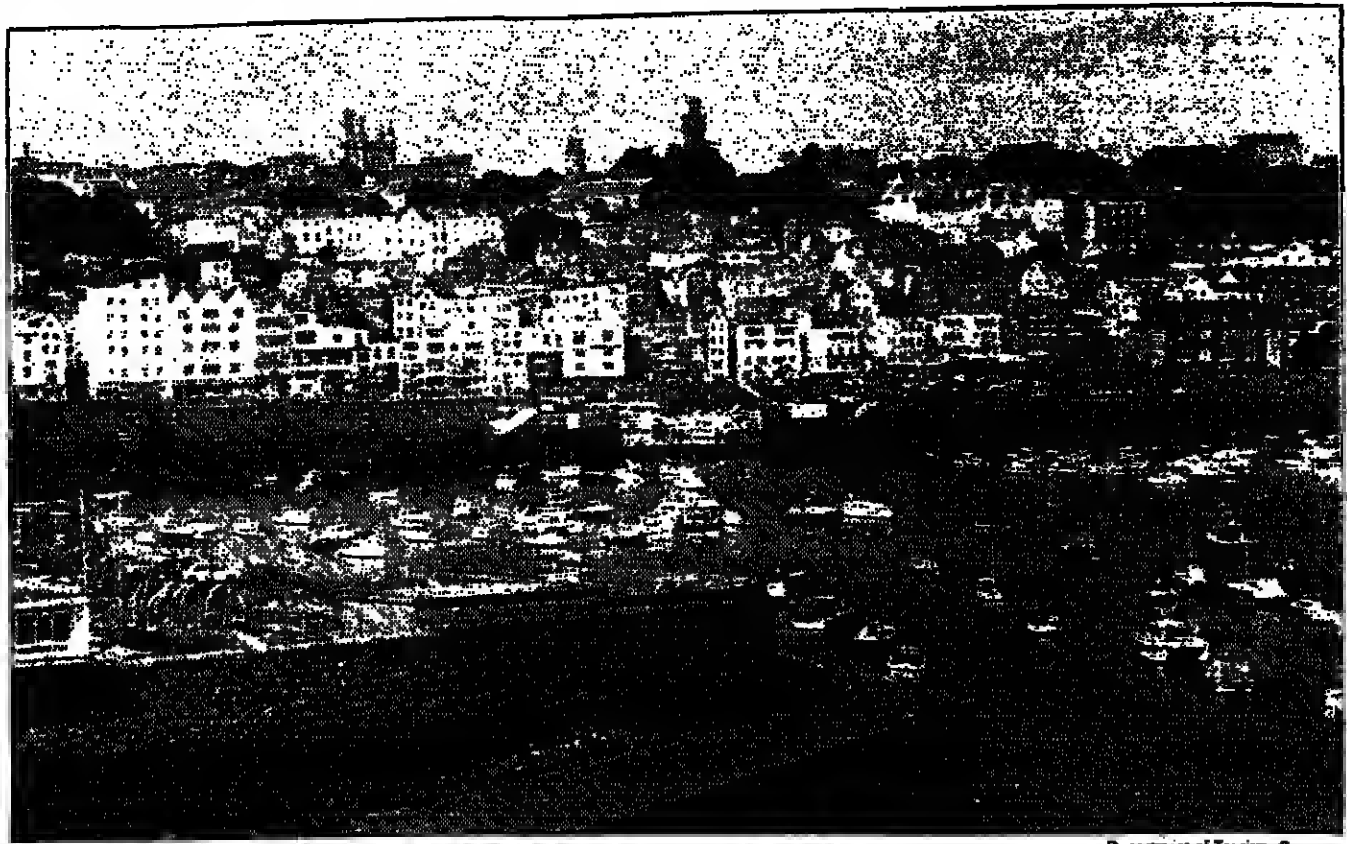
Despite their fine beaches and spectacular coastal scenery, the islands accept that they can no longer rely just on their natural beauty to draw tourists. They are more actively promoting attractions such as Jersey's internationally famous zoo and Victor Hugo's bizarre home of exile in Guernsey.

They are also making more of their surprisingly rich historical heritage, which stretches from Neolithic sites and evidence of Roman occupation to medieval castles, Napoleonic forts and towers, and the massive fortifications left by the Nazi invaders.

Many more special events are being organized to supplement traditional spectacles like the Battle of Flowers. Jersey stages a spring festival, a good food festival, a France-Jersey festival and a floral week, while Guernsey competes with dance festivals, a powderboat week, a chess festival and, for the first time this September, a two-week "arts and fun" festival.

With the opening this year of a new £20-million marina, Guernsey is making a special effort to exploit its natural asset — the sea. The island will be the main sponsor of the 1988 International Boat Show in London and is to host the World Class I and II powderboat championships.

WILLA MURRAY is a journalist based in Guernsey.



Department of Tourism, Guernsey



Three faces of the Channel Islands that predominate the banks and stockbrokers: St. Peter Port, above, the chief town of Guernsey; a Jersey beach with its martello tower, and chrysanthemums ready for export.



Brian J. Green

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Political Stability Is Key Link to Financial Future

Continued from page 1

Commons does have the reserve powers to legislate for the islands in the interests of good government, but by convention built up over centuries, it has not done so.

The islanders also believe that it is inconceivable that the British Parliament, in which they are not represented, would seek to alter their constitutional position against their will.

With democratically elected

parliaments, the islands also clearly have the option of breaking away from Britain altogether if they wanted. They have already looked at the possibility of severing the monetary union that exists between them and Britain, just in case a future British government decided to reimpose exchange controls.

Up to this year, any exchange controls would have been automatically extended to the islands under British law, but one of the last acts of the Conservative administration before the June 11 election was to repeal this law, and even the Labor Party has said it would not want to use exchange controls again.

Another argument against interference from Britain is the significant contribution the islands' finance sector makes to the British balance of payments position and the level of foreign earnings. Several years ago, it was estimated by William Clarke, then the director-general of the British Invisibles Exports Council, that Jersey alone contributed more than £100 million to the balance of payments, and this figure will have increased considerably since then.

So far, the islands have been able to avoid any major financial scandals and have increased their reputation. As Colin Powell, the economic adviser to the States of Jersey, says, there are many reasons for Jersey's continued strength as a finance center, in-

cluding stability, good communications, proximity to the City of London and a high standard of professional services.

"But a key factor in recent years has been the reputation of the islands as a center that offers high service standards," he said.

"The islands have avoided the adverse publicity attaching to many other offshore centers, due in large part to the policy pursued of only approving new banks, trust companies, offshore funds, etc., related to first-class names of international renown."

But there is always the possibility that the all-important reputation of the islands will be tarnished in some way. Anywhere where banking secrecy and the use

of nominee companies is important, the system is vulnerable to abuse by criminal elements.

The laundering of the profits of drug dealers is a distinct possibility, but no evidence has been produced that this goes on to any extent. A House of Commons committee that visited the islands last year said it was satisfied that the authorities and the finance industry were as keen as anyone to avoid handling dirty money.

Both Jersey and Guernsey are introducing legislation to allow the confiscation of the assets of drug dealers and provide for more disclosure of information from financial institutions where the handling of dirty money is suspected.

Similarly, the authorities are planning legislation to ensure that Jersey and Guernsey companies are not used by insider traders in Britain or elsewhere to hide their illegal profits in share dealing. The new law will enable inspectors to be called in to investigate local companies where there are complaints of insider dealing. But the use of any information will be strictly limited, because the authorities are anxious not to destroy the islands' reputation for confidentiality.

An even more significant threat to the continuing prosperity of the Channel Islands is the need to curb immigration and restrict growth in order to protect the environment and way of life. Efforts are being made to dampen down an overdeveloped economy by restricting the creation of jobs, which is seen to be the key to limiting the influx of people.

Many of the people coming in are considered essential to service the increasingly complex and sophisticated finance industry.

The finance committees of both Jersey and Guernsey believe that there is still plenty of scope for growth through increased competition, the more efficient use of resources, particularly manpower, and an emphasis on only the most profitable business.

Guernsey's Advisory and Finance Committee recently warned that there were some institutions on the island employing staff and other resources "without bringing commensurate benefit to the island."

"It would be ironic if management in the finance sector were to turn away repeatedly business which was both sound and profitable for lack of resources, with commensurate loss to the island's revenue, when valuable resources are being taken up by those who use the island for their convenience while providing little or no return," the report said.

Jersey's finance president, Senator Reg Jenne, has gone to great lengths to assure businesses that despite immigration problems, the door is not closed completely and that new businesses and people will be allowed in if they are shown to be of sufficient benefit to the island as a whole.

PETER BODY is the business editor of the Jersey Evening Post and associate editor of a sister publication, Offshore Finance.



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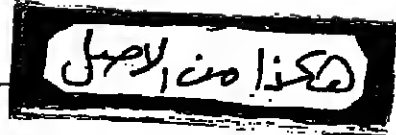
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Islands' Budget ■ Fund Management

Prudence Guides Bulging Treasury as Bank Sector Fuels Economy

By Peter Body

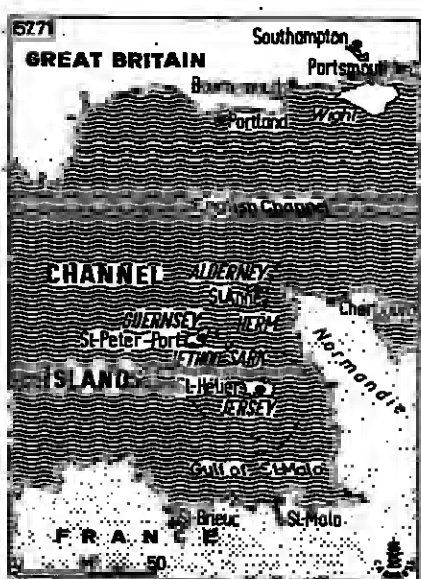
ST. HELIER, Jersey — For many years now, the president of Jersey's Finance and Economics Committee has had a problem at budget time unlike any facing other finance ministers.

The problem has not been primarily trying to raise additional money in order to balance the budget; it has been to try to curb public spending when the budget figures continually show huge surpluses. It has not been easy to persuade government departments and public employees to reduce their demands on the exchequer when there is so much money readily available.

The fact that he does try to force restraint and caution on the island at a time of prosperity, shows the prudent way in which the financial affairs of Jersey and Guernsey have been handled in recent years.

The warning constantly given by finance presidents is that they have to resist spending too much so that there is enough money to put away for a rainy day when the economy might not be so buoyant. They are well aware that the major sectors of the economy, such as banking and finance, are vulnerable to outside factors.

So far, there is no sign of any downturn, and no place has gained more from the worldwide



expansion in service industries, particularly financial services, than the Channel Islands. Had their economy been based on manufacturing to any great extent, they would have

suffered from the recession as did the United Kingdom and most of Europe.

But manufacturing accounts for only a small percentage of gross national product, while services, particularly banking and finance, are the mainstays of the economy.

Whereas other economies with a large manufacturing base have been suffering unemployment of 10 percent or more, Jersey's unemployment is negligible, and it is estimated that there are only about 50 long-term unemployed in Guernsey out of a working population of 28,000.

The population is also generally better off than its neighbors, and the latest available figures show Jersey's per capita GNP in 1985 to be about £7,000 (\$11,200) compared to the U.K.'s £5,400.

Finance has now overtaken tourism as the most important contributor to GNP, accounting for nearly 40 percent in Jersey and 35 percent in Guernsey, with tourism contributing 37 percent in Jersey and 25 percent in Guernsey.

The exchequers have also benefited greatly from the increasing profitability of financial services. Pre-tax profits of the banks in Jersey in 1985 amounted to £88 million, or £1,100 per head of population, and £49,000 per employee. In the other areas of finance, such as trust and fund management companies, are included, the profit figure was about £120 million.

Guernsey's banks are similarly profitable, and produced pre-tax profits last year of £47 million, or about £800 per capita.

As Guernsey's most recent Economic Report says: "The world boom in financial services has meant that finance sector profits have been the major contributor to increased GNP. Finance sector profits in 1986 are likely, other things being equal, to yield in excess of £19 million in tax revenues to the States of Guernsey (about one fifth of the total)."

Although the finance industry is generally blamed for causing excessive immigration, its profitability is also growing faster than the number of people employed in it. In Jersey's case, the number of people employed in the banking industry in 1985 was 9 percent up on the previous year, but profit per employee increased by 17 percent.

The additional tax revenue produced has enabled both Jersey and Guernsey to finance major capital projects, considering the total population is only 140,000 and the level of government services are generally as good if not better than most countries in Europe.

Despite the calls for restraint, the budget approved for this year in Jersey includes revenue spending of £172 million, up £10 million on last year's estimates, with the biggest spending committees being Public Health and Education.

In addition, a further £28.4 million has been

approved for capital projects, including £9 million toward buying land and building houses, which is considered a priority.

Jersey is also in the process of reclaiming land in order to build a new harbor costing £15 million, and £12 million has just been spent on the island's most complex building, an extension to the general hospital.

Even more could be spent, of course, but there is a marked reluctance to spend more money rather than build up reserves. Thus, Jersey's social security plan, while providing benefits in excess of most of those in the United Kingdom, is strictly a "pay as you go" plan where contributions match benefits and there is only a small amount of topping up from taxation.

Government departments in Jersey such as the post office, telecommunications and the harbors and airport, are also treated as trading concerns and are given profit targets to meet. Up until recently, they had to pay a commercial rate for borrowing money from the exchequer.

Even though States' spending increased by four times the rate of inflation in Jersey last year, revenue has also been buoyant thanks to the finance industry.

Last year's tax yield will probably increase by 12 percent, and even though record spending is planned, the current president of finance, Senator Reg Jeune, was able to increase tax

allowances by more than inflation so that a couple with two children and a total income of £10,000 pay only £360 in income tax in Jersey compared to £1,100 in the United Kingdom.

Even then Senator Jeune was able to put an extra £10 million into a new strategic reserve, and available reserves now total £54 million, which is still too low, he says.

Although Guernsey is less prosperous than Jersey, and the finance industry not as large, a similar buoyant picture was painted in their recent budget when the surplus was twice what was expected.

This prosperity is shared by industries linked to the finance sector, and the construction industry in particular has been described as the barometer of the economy.

Large areas of both St. Helier in Jersey and St. Peter Port in Guernsey now resemble parts of the City of London, instead of very small provincial towns, as banks and other financial institutions build new headquarters. Chase Bank in Jersey, for example, has just moved into new offices at a cost of £10 million, and demand for new office accommodation is being reflected in rentals, which almost doubled in three years.

This growth is unlikely to continue as attempts are made to dampen the economy and curb job creation, but there are no signs that the Channel Islands bubble is about to burst.

Breadth of Financial Services Is Growing

ST. HELIER, Jersey — More offshore funds are run from the Channel Islands than anywhere else in the world, which is a good indication of the tremendous growth in the islands' financial services in recent years.

Fund management groups, such as Fidelity, MIM Britannia, Save and Prosper, Warburgs and Hambros, manage more than £3.5 billion (\$5.6 billion) of investors' money in Jersey, and the Guernsey figure, which is unknown, is thought to be well in excess of £1 billion.

Fund management is only one important part of increasingly wide financial services offered to individual and institutional investors virtually anywhere in the world, and between the two islands, they probably provide the widest range of any offshore finance center in the world.

This has happened only in the past 25 years, when London merchant banks started to establish offices in the islands to service mainly British clients after the repeal of an ancient usury law that had restricted interest rates to a maximum of 5 percent.

The first to arrive in Jersey was Hill Samuel, which was followed closely by Kleinwort Benson and then the first foreign institution, Royal Trust of Canada.

As the president of Guernsey's advisory and finance committee, Councillor Roydon Falls — who is the equivalent of minister of finance — noted recently, "The number of politically stable offshore centers, with good communications and a sound infrastructure, has been steadily diminishing."

In contrast, Jersey's economic adviser, Colin Powell, said that the reputation of the islands has been enhanced in recent years.

"Where Jersey has advanced most particularly in its standing as a finance center has been through its growing international reputation," he said.

Although Guernsey was a little later on the scene and picked up several institutions that could not get into Jersey, it is now in a similar position.

The services they offer have developed from simple bank deposit accounts in sterling to a comprehensive range of savings and investment accounts in virtually all major currencies.

Because of staffing problems, bankers have had to tailor their services to their staff numbers and not the other way around. Kleinwort Benson in Jersey, for example, has dropped several less profitable retail banking services, such as the issue of travelers checks, and the minimum deposit size has been raised from £1,000 to £5,000.

But there is plenty of this business available, according to the general manager, Richard Le Sauter, who is also president of the 54-member Jersey Bankers' Association.

"The impression going around is that Jersey is full, but we are never full, and there is still room for growth, although there has been a shift of emphasis," he said.

Robert Lindell, managing director of Chase Bank and Trust Company (CT) Ltd., said that they have drawn up plans for well into the 1990s, which allow continuing growth.

A worldwide decline in syndicated loan business has affected Jersey, but as a substitute, the island has been used for a few Euro-bond issues.

A particular growth area, however, is private banking for what is provisionally called, "high net worth individuals." Most major banks in the islands, such as Citibank, Chase, the Hongkong Bank, Bank of America, and Marmacour's Hambros Trust, now offer private banking services.

As an indication of the growth in asset protection, the Hongkong Bank recently established an international trustee group and chose Jersey as the financial control center for this global service. Its Jersey trustee company is second only to the one in Hong Kong in size.

Trusts and trustee services have always been an important feature of the islands' finance sector. There has been increased



Richard Le Sauter.

growth in this area following the introduction of a trusts law in Jersey in 1984. Guernsey does not yet have a law on trusts.

Jersey trust companies are so profitable that a number of outside financial institutions, such as the Hong Kong group, Jardine Matheson, have recently been buying into local companies and paying up to 10 times annual earnings.

Stockbrokers, such as James Capel, Hoare Govett, Steppards and Buckmaster and Moore, which all have offices in the islands, have widened their horizons following "Big Bang" in the City of London, and James Capel (Jersey) Ltd., has recently announced that it was opening offices in Monaco and Gibraltar to service foreign residents. But because of immigration restrictions, brokers are being increasingly selective about what business they do in the islands.

For example, the Holborn Cur-

The islands were the first to develop 'roll up' currency funds that converted highly taxed income into lower taxed capital gains.

rency Fund, set up by the Prudential group to offer investment opportunities in leading currencies, is based in Bermuda but managed in Guernsey.

Nearly all of the 30 or so offshore funds investing in U.K. government securities are based in the Channel Islands, with the biggest MIM Britannia's Jersey Gilt Fund, having more than £200 million under management.

The islands were also the first to develop "roll up" currency funds that effectively converted highly taxed income into lower taxed capital gains. These were so successful and popular with U.K. residents that the Inland Revenue stepped in and reduced their tax benefits for U.K. investors.

But this did not mark the end of the roll up investors, as some people had predicted, and overseas investors, particularly expatriates, concerned about currency fluctuations or wanting to take advantage of currency movements, have put millions of pounds into these funds.

The latest development is the umbrella fund, which was launched by Gartmore Fund Managers in Jersey in 1985 and since then has been copied by other groups. With a single investment, it allows cheap and convenient switching between various sub-funds concentrating on different investment markets. Gartmore's Capital Strategy Fund, as it is called, offers 21 types of investment in Bermuda but managed in Guernsey.

Another interesting development is the choice of Jersey as the headquarters for development capital specialists Berkeley Technology Ltd., which recently changed its name to Berkeley Govett after acquiring the U.K. investment group. It has used the island to launch several funds investing in U.K. emerging technology companies, including the first joint venture of its type with a large U.K. life insurance group.

Jersey and Guernsey funds are not restricted in their investments in the same way that U.K. authorized unit trusts are. However, according to Jersey's commercial relations officer, this does not mean that they are any less strictly supervised.

Jersey and Guernsey are now working on new legislation to protect investors in island-based funds, or any fund with island involvement.

This legislation is particularly necessary because of Britain's new Financial Services Act, which will restrict the marketing of collective investment plans in Britain to those that meet strict investor protection standards.

The Channel Islands hope that

their laws will provide enough protection to satisfy U.K. authorities so that their funds can continue to be marketed in Britain.

They are also considering what to do when new standards are applied to collective investment plans in Europe.


"Jersey's regulatory objectives are and must often remain wider than those of larger countries," Mr. Syvret wrote recently in the Finance in Jersey publication.

The draft Collective Investment Schemes Law, which will shortly go to the Assembly of the States, Jersey's parliament, will prohibit any Jersey-based individual or institution from acting as a fiduciary of any investment plan wherever it is situated, unless it has permission from the island authorities.

In the case of a unit trust, both the manager and the trustee would be separate fiduciaries.

A similar law is planned for Guernsey, which has gone further by establishing a separate Financial Services Commission to supervise collective investment plans.

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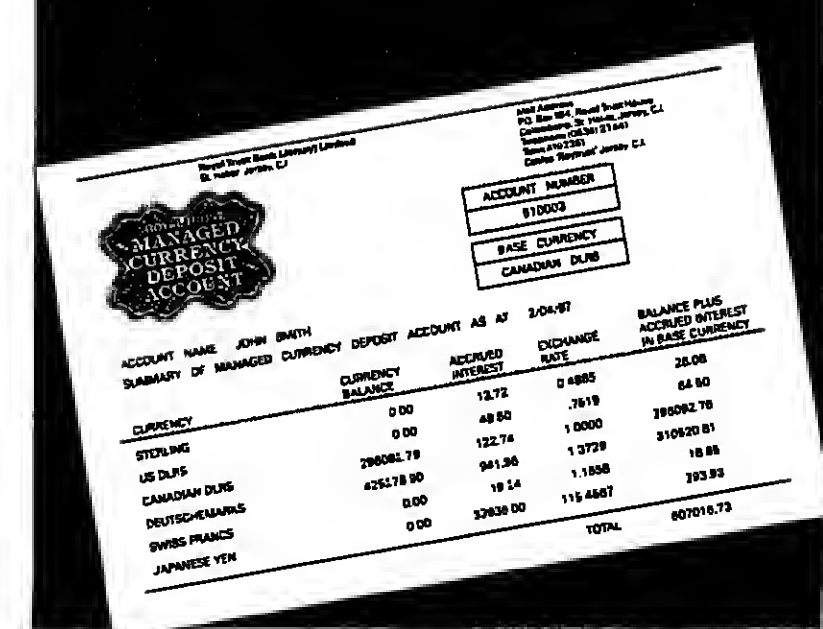
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Jersey vs. Guernsey: In Offshore Insurance, There Is No Competition

By Jane McLoughlin

ST. HELIER, Jersey — Although Jersey and Guernsey are competitive in many of the financial services they offer, there is no contest in the insurance business. In

Guernsey, this is an important sector generating about £200 million (\$320 million) in annual premiums; in Jersey, it is embryonic and thought unlikely to develop. It was not until 1983 that Jersey even allowed the incorporation of insurance companies, and even now it permits only those within

the captive business or involved in third party reinsurance. The concession was not aimed at tapping a new source of business but to enable the international financial groups on the island to offer a complete range of services. On Guernsey, though, insurance has been an important sector

since the early 1970s, and particularly in the last 10 years with the boom in the captive insurance industry. This has pushed Guernsey into the position of the world's third largest offshore insurance center, after Bermuda and the Cayman Islands.

Risk managers selecting a base for captive insurance operations were attracted to Guernsey because it is in the same time zone as London, where the world insurance business centers around Lloyd's of London. And the island offered the advantage of a quick set-up time. A recent newcomer to Jersey from the United States says that setting up an operation in London would take at least one year, but that they were in business within six weeks in Guernsey.

But tax advantages must still have played the greatest part in Guernsey's boom in captive insurance. This is the name given to insurance companies set up offshore by large industrial and commercial companies, primarily to insure the risks of the parent group.

In Guernsey, if an insurance company is a wholly owned subsidiary of another company and insures only the risks of its parent or other wholly owned subsidiaries, the tax administrators consider the insurance activities of a mutual nature and, thus, not taxable.

Risk managers were attracted to Guernsey because it is in the same time zone as Lloyd's in London.

Even when such a company does do third party insurance business as well, the underwriting profits of the two functions are split for tax purposes and the profits from mutual trading not subjected to tax.

The absence of value added tax can also keep down the normal costs in settling claims.

Exact figures on the numbers involved in Guernsey's captive insurance operations are not expected before the end of this year, when the regulatory effects of the 1986 Insurance Business Act will provide fuller information than companies have previously had to provide. Guernsey has had little formal infrastructure in regulating the insurance industry, and the figure of 170 companies is a best guess. But from Jan. 1 this year, insurance companies have been

obliged to register under the new act.

Late last year, the island states appointed their first supervisor of insurance business to be responsible for administering the new law. As well as registration, this requires companies to meet new regulations over the licensing of companies, capitalization, solvency, approval of officers and managers and inspection of accounts.

From now on, insurance companies must maintain a solvency margin of 18 percent for the first £5 million of premium income, and 75 percent must be invested in approved assets. These include equities and Eurobonds as well as bank deposit funds.

These regulations will make statutory a system of checks and balances that Guernsey's insurance business has operated volun-

arily, with few obvious abuses, in recognition that its business reputation depends on integrity. But recently, several prestigious captive operations have set up in the Isle of Man rather than Guernsey.

This reflects concern over a possible weakness among Guernsey's strengths in expertise and high-grade professional back-up from advocates, accountants and bankers. The question mark is over the availability of skilled, trained staff.

Many captive insurance companies can operate on a handful of staff, but the large projects like some of those moving to the Isle of Man — which include British Gas, Wimpey and Jaguar — may need 10 times the numbers. With a continuing policy to limit immigration — although this is not as onerous as in Jersey — and pressure on manpower available from a growing banking and trust sector, there is a fear that too much pressure could be put on the island's finite resources.

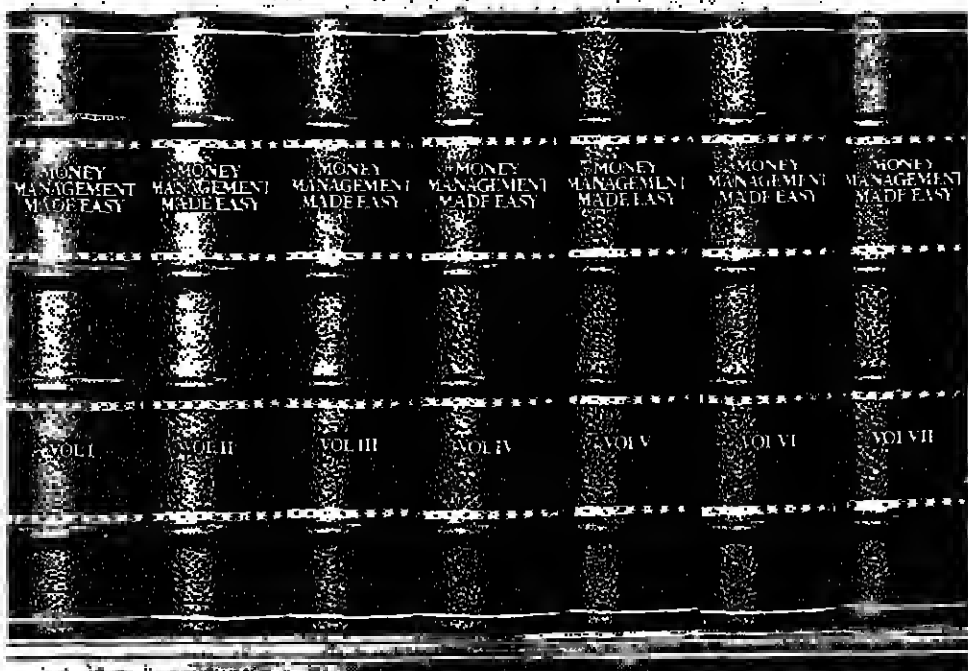
Guernsey's risk managers and insurance brokers are aware that they have to ally fears that the island has reached saturation point in order to attract continued growth in the captive market. Such companies will continue to seek a center like Guernsey where the jurisdiction does not force them to comply with all the requirements

of insurance law designed to protect members of the public.

The lower costs involved (through savings on tax) are also attractive while terrorism and world political instability push insurance rates higher and higher in some classes.

And the business keeps coming. Sabre International, backed by Middle East and U.S. interests, has recently set up in Guernsey with fully paid up capital of \$10 million. It will concentrate on underwriting aviation business worldwide and will be managed by Transglobe Underwriting Management. The latter already manages Polygon Insurance, whose principal shareholders are the Scandinavian Airlines System, Swissair and KLM. This was originally a captive but now draws 90 percent of its net premium income from third party underwriting.

If Guernsey has been helped in its development as a center for captive insurance because Jersey never entered the race, then it will not suffer now from an increase in competition. Jersey's successful financial center is equally under pressure from lack of resources of trained technical staff. While making the most of existing business is the most obvious way to increase productivity and cope with growth, Guernsey has the insurance sector more or less to itself.



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Tax Haven: Fighting an Unwanted Label

By Edward Owen

ST. PETER PORT, Guernsey — Official spokesmen in Jersey and Guernsey insist that the islands should not be called tax havens because they have never manipulated fiscal policy to entice offshore business. Their low-tax economies, they say, have evolved naturally to serve the needs of small — and originally simple — communities.

If the islands have been sought out as refuges for the wealthy and as financial centers, it is argued, this has been due to the tax burdens imposed elsewhere, not to anything done locally, where income tax has been unaltered at 20 percent in Jersey since 1940 and in Guernsey since 1960.

Largely, this claim stands up, even if Guernsey's decision 27 years ago to drop its standard income tax rate from 5 shillings and 2 pence to Jersey's level of 4 shil-

lings to attract more retired Britons might be seen as a move to become a tax haven.

Recently, too, Guernsey has started giving tax-exempt status to locally managed offshore funds, and in both islands the tax laws have clearly been interpreted in a way very helpful to offshore financiers.

Historically, however, the Channel Islands' emergence as financial centers owed much more to Jersey's abolition in 1962 of a usury law restricting interest rates to 5 percent than to any fiscal contrivance.

The islands' tax structure is uncomplicated. Income tax is charged at 20 percent both on corporations and individuals, regardless of the level of earnings, and there are no capital taxes, death duties or other levies.

Companies can apply to be treated either as controlled within Jersey, Guernsey or Alderney (Sark is a separate entity) with liability to local income tax, or as nonresident, paying only a £500 (\$800) annual fee known as corporation tax.

The tax was raised to £500 this year after standing at £300 since

1974. The increase brought dire warnings of corporate business migrating to cheaper jurisdictions, such as Panama, but so far this does not seem to have happened. The decision to raise corporation tax was taken in consultation with the Isle of Man, though that rival offshore center has undercut the Channel Islands by £50.

The feudal Isle of Sark, which has no income tax and no company registration, nevertheless, features largely in the Channel Islands' finance business because of the corporation-tax system. To claim nonresidency, companies must have a majority of nonlocal directors and hold board meetings outside the fiscal area.

Sark has proved an ideally convenient location for this purpose, and quite a few of its 520 inhabitants make comfortable incomes by acting as directors and signing papers for visiting bankers, lawyers and accountants.

Many financiers in Jersey and Guernsey are worried about the bad international publicity caused by this so-called "Sark Lark" and have urged the authorities to end this by giving nonresident compa-

nies straightforward tax-exempt status.

Two hallowed principles govern Channel Islands budgetary policy: not to raise income tax and not to run into national debt.

Virtually the only negotiable factor is the rate of indirect taxation — the duties of import levied on liquor, tobacco and fuel, which the islands have managed to keep well below the U.K. level.

Reflecting its prosperity, Jersey has been generous with income tax allowances and islanders do better in this respect than their U.K. counterparts.

A married couple with two children can earn up to £8,800 without paying tax. Guernsey, whose tax rates also apply to Alderney, decided it could not afford to improve allowances in 1984, but was able to do so in the past two years to bring the tax exemption level for a couple with two children to £8,200.

The buoyant tax revenues generated by the finance boom — which the islands have repeatedly underestimated — have allowed Jersey to build up a strategic reserve fund over the past two years

of £20 million, bringing total reserves to £72 million.

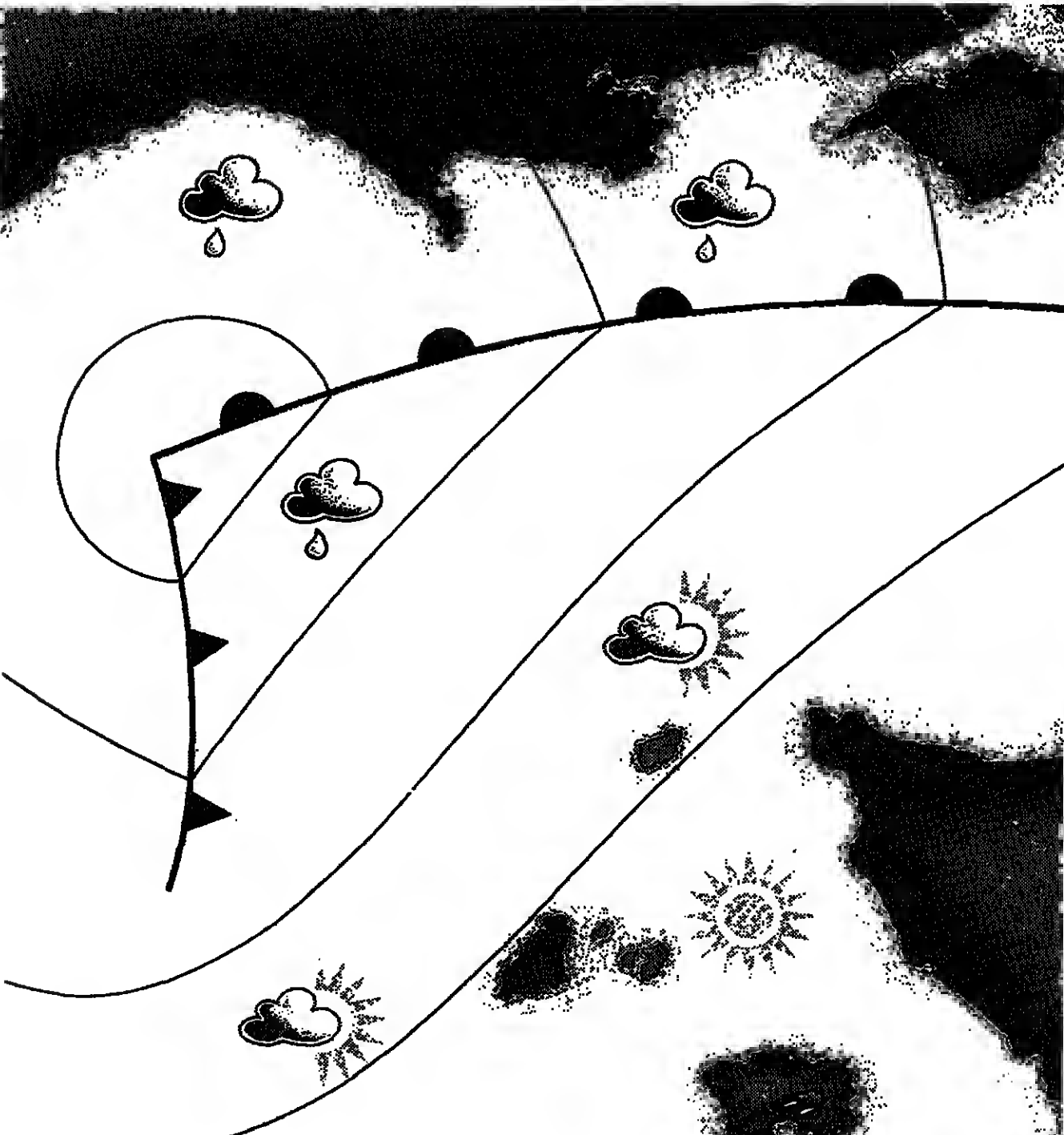
Guernsey has recently added £5 million to a contingency fund started last year with £2.5 million. The aim of both islands is to have "rainy day" reserves amounting to 50 percent of gross revenue expenditure.

Public projects, such as a current £16 million land reclamation project in Guernsey or harbor extensions costing £15 million in Jersey, are normally financed out of accumulated funds.

Guernsey's Post Office, Telecommunications Board and Electricity Board are run virtually as trading corporations.

The prudent Channel Islands, which see budgeting for a surplus as a safeguard of independence, seldom have recourse to the commercial money market. One of the occasions is likely to be for a projected electricity cable link between Guernsey and France, where the Electricity Board plans to seek a syndicated loan of up to £26 million from local banks.

EDWARD OWEN is a financial journalist based in Guernsey.



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July 1987

Protecting Assets

Trusts Bolster Fund Management

By Jane McLoughlin

ST. HELIER, Jersey — Jersey has no capital gains tax, no wealth tax, no stamp duty on the creation of a trust, which can help the wealthy who are subject to some or all of them in their own countries to mitigate their liability.

In the United Kingdom, the Channel Islands have long been seen as tax havens both before and after death. This is why, before the doors were virtually closed on immigration, a number of wealthy Britons went to live in Jersey. But more recently, with new residents restricted to five members of the "million minimum club" a year, Jersey has developed a booming business in helping acquirers protect their assets against tax through Jersey trusts.

As long as one of the minimum two trustees is resident in Jersey, and both the settlor and the beneficiaries of the trust are not, such trusts effectively avoid any tax at all.

At the same time, the trust offers anonymity, useful where declaration of wealth by settlor or beneficiary is required under exchange control regulations (the trust document does not have to be stamped or registered, and the identity of neither settlor nor beneficiary is made public). But most important of all to the high network clientele that Jersey attracts, the settlor can, through a letter of wishes, effectively retain control over the administration of his assets.

Jersey has thus developed a concept of trusts that has introduced the idea to Europeans who, unlike the British, had traditionally made little use of them. The advantage of having assets located in a Jersey trust is that it is not subject to the laws of the country where the settlor lives. This is not just in terms of death duties. Some countries, such as Spain, have strict rules on how money should pass to people within families, regardless of the wishes of the deceased. With a trust in Jersey, there is no need for probate; the trust simply continues as before.

In 1984, Jersey introduced its first Trust Law, in order to cover the requirements of the British Financial Services Act of 1986 and the European Community's Fifth Directive on Undertakings for Collective Investment in Transferable Securities. This makes statutory standards of administration, which the Jersey Assembly of the States' careful screening of practitioners already met. However, the aim was perhaps more to deal with the "retail" side of trust administration, unit trust and fund management.

Since Jersey trusts have developed into a convenient way of controlling assets through trustees, there has been a considerable increase in the fund management business. Such a clientele is usually wealthy, for with assets of less

than £100,000 (\$160,000), the annual fees of about 10 percent invalidate the tax advantages. But the anticipated growth in this aspect of fund management depends entirely on Jersey satisfying the legal requirements for designated territory status so that its unit trust funds are marketable in Britain and the EC.

So far, Jersey has been able to market unit trust funds in Britain by circumventing the regulations in the form of open-ended trust companies, which could have the prospectuses and shares that made them marketable in Britain. But this method of marketing offshore funded companies will be stopped later this year, and Jersey's continuing business depends on being accepted under the new rules.

This sector has grown fast through Jersey's flexible response to the changing demands of

and thus avoid being locked into a particular falling market.

Clearly, in such a climate maximizing the potential of unit trusts depends on new technology. Stockbrokers, many of them branch offices of the famous London names, have moved to Jersey with the advantages of a link with the stock exchange electronic marketplace; the merchant banks, and the big international names in unit trusts on Jersey have the latest research information and market movements from overseas headquarters on the wire. The fund management sector depends on ever more sophisticated computer systems and this leads to the universal outcry in Jersey: trained staff.

Indeed, staffing limitations on the island are already creating Big Bang scale pressure on

Jersey has developed a concept of trusts that has introduced the idea to Europeans, who had traditionally made little use of them.

its clientele over the last 10 years, including quite modest individual investors hoping to maximize their capital, as well as the multi-million portfolios. Jersey company law — or lack of it — allowed the development of investment vehicles that could not have been considered elsewhere under U.K. law. The unit trust sector, for instance, has made much of the running in the creation of new financial products.

Most recent developments have been the multiclass and umbrella funds. Originally, investors put their money in funds designated in any one of 20 or more different market sectors — bonds, international fixed interest securities, British government stocks and currency funds — and the funds were managed specifically in these sectors. The multiclass system makes it possible to switch between sectors — say from fixed interest to equity — without the transfer paperwork that had previously justified a 5 percent charge for each shift.

There is also the tax aspect that switches between funds or companies is liable to capital gains tax in the United Kingdom, but, from paper to paper, it is a conversion within the same fund, so not chargeable. Similarly, the umbrella fund concept enables the investor to switch between sub-funds under the umbrella

salaries and executive searches. The logical progression is probably rationalization of existing services, so stockbrokers, for instance, may eventually extend their financial scope into trustee and fund management services.

Movement toward integration of existing finite resources is dedicated to growth. Growth and survival are the same thing to Jersey unit trust managers. In the near future, they will surely have to offer a round-the-clock service to investors, for instance. They will have to do this through increased productivity from existing staffing levels. But Jersey's reputation in fund management is based on skill in the art of the possible.

"The concept of trusts developed in Jersey is very different from more hidebound financial centers," says Ivor Mills of Royal Trust. "This is because the settlor can still influence the trustees in action they may pursue. While he is legally dissociated from his money, in reality there is a wide interpretation on the realm of proper trusteeship. Our offshore trust market is quite deep and growing, and tends to look for answers to problems in protecting capital. This is clearly tax mitigation, not avoidance. Our industry in Jersey must depend on the integrity of institutions."

Corporation Taxes

'Sark Lark' Blurs Financial Image

ST. HELIER, Jersey — Jersey owes much of its current (and potential) success in competing for the wealthy world's financial business to its clean image. Where scandals have rocked other financial centers — and may even have brushed against Jersey banks by association — they have been scrubbed clean by the policy of the States (governing body) and the private sector's self-disciplining.

On this basis, there is a considerable head of steam building up against what many believe damages the purity of Jersey's financial sector image: concern about the system of corporation tax companies concentrated on the so-called "Sark Lark."

There are some 9,000 corporation tax companies operating from Jersey. They are companies registered there, involving initial incorporation fees of perhaps £900 (\$1,440), but they do not trade there. As long as a company is set up and controlled by people outside Jersey (or any other income tax, only to an annual £500 corporation tax).

One of the conditions in operating such a company is that directors are nonresident in Jersey and board meetings are held outside the island. Hence the Sark Lark. Over the years, the custom has grown of recruiting among the 520 residents of the conveniently close but fiscally independent island of Sark for nominal directors of these Jersey-registered corporation tax companies. The earnings of Sark fishermen, hotelkeepers and housewives can be boosted by several thousand pounds a year, with no more onerous duties than signing their name to a few papers and playing hosts at the annual brief token visit of outsiders for the board meeting.

The Sark Lark does not necessarily imply any kind of malpractice. If the board meetings were not held in Sark, it would be somewhere else outside Jersey. It is rather a question of retaining what is ultimately a bit of a sham when Jersey has otherwise left far behind the old association with the tax-haven image. But a 200-page discussion draft of a proposed new company law to be enacted later this year does include a question mark over the future of the Sark Lark.

There have been proposals before to reform the tax system as it applies to corporation tax companies. But these companies provide Jersey with considerable revenue from registration fees and the annual corporation tax, which was increased this year from £300 to £500.

The States' economic adviser, John Powell, writes in his annual financial report on the economy that "adjusting the present rate of tax, fixed in 1974, for inflation, would suggest a tax of £1,060." It is hard to see that this is not unreasonable, but the feeling in Jersey is

that this would encourage such companies to register instead in Liberia or Panama, with consequent loss of revenue to the Jersey Exchequer.

One way out that has some support locally is for all foreign-owned companies, including those registered and controlled in Jersey, to be exempted from Jersey's 20 percent income tax. This would end the Sark Lark, since the corporation tax companies could then hold their board meetings in Jersey, which would boost profits for the island's hoteliers, shops and restaurants.

But there would be a considerable loss of income tax revenue from the resident Jersey companies that could claim exemption. There are many reasons for incorporating a company in Jersey, even if it is not a corporation tax company, including the speed with which the process can be accomplished, usually within five working days. And income tax revenue lost by exempting resident Jersey companies would have to come from somewhere, inevitably increasing the pressure on Jersey residents already hard pressed to fulfill the growing demands of an expanding financial sector, new technology and training.

Bob Gaiger, Jersey's comptroller of income tax, has said publicly that he does not believe corporation tax companies should be able to have tax-free status and enjoy all the benefits of tax-paying companies. But he argued recently that the Sark Lark is a product of the private sector and that the private sector should perhaps put its own house in order and not look to the States for a solution.

The discussion document issued by the States in August last year and sent out to interested parties for comment before the new Company Law is finally drafted does invite consideration of measures covering corporation tax companies. At present, though all companies have to file annual returns to the Registrar, their accounts do not have to be audited and there is no statutory machinery for these to be filed on any public record.

The discussion document is not very specific at this stage. If the law is enacted, it would mean that the Jersey Court would be given the power to disqualify "unfit" directors of companies. The States would have power to make regulations concerning transactions between companies and their directors and disclosure of their transactions to other directors and shareholders where necessary. These measures could perhaps provide closer scrutiny of corporation tax companies.

Comment is also invited on various areas where the States could enact subordinate legislation to regulate the public accountability of companies — for instance, concerning the form and contents of

accounts and the qualifications of auditors.

It is conceivable that the new company law, when it is finalized, will leave open the question of the Sark Lark. The question then will

be when and if the States should or would enact "subordinate legislation" regulating corporation tax companies that might end the Sark Lark.

Jane McLoughlin

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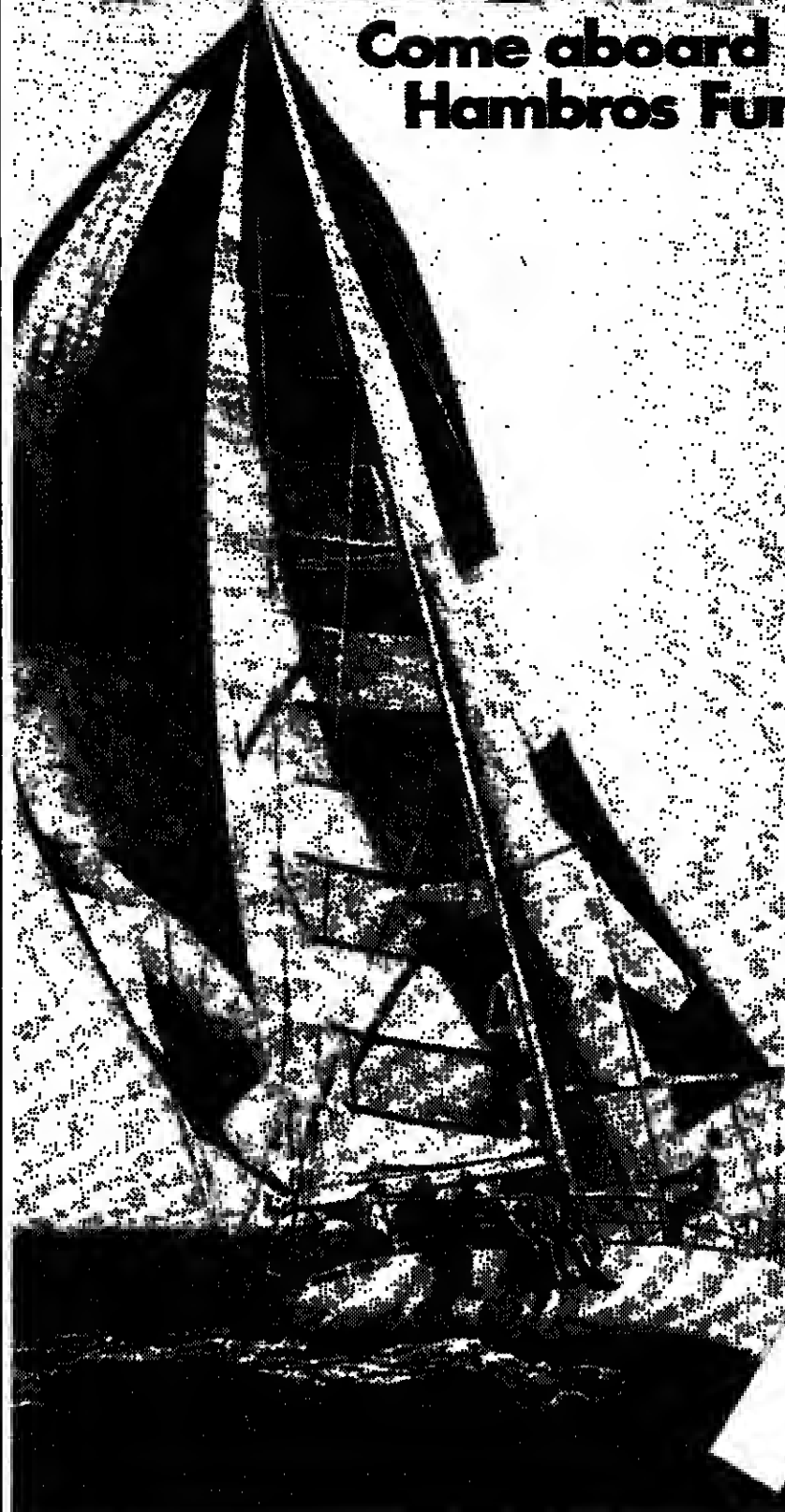
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Light Industry a Base for Exports

By Wills Murray

ST. PETER PORT, Guernsey — The traditional picture of Guernsey as a holiday island chiefly concerned with growing tomatoes and flowers has been changed in the past decade.

A campaign to sell the island to manufacturers in Britain and the United States as a base for light industry has developed an export business that was worth £80 million (\$120 million) last year. Electronics firms accounted for over £63 million of that figure. By comparison, horticultural exports brought in £30 million.

Since the end of the 1970s, faced with rising job losses through the decline of horticulture, the island has spent more than £1 million in Britain and the United States in a bid to broaden its economic base. The American electronics instrument manufacturer Tektronix, which has been operating in Guernsey for more than 25 years

and is the largest private employer, with a work force of 330, was seen as the desirable type of plant.

The island set out to attract similar, but smaller, units producing high-value, low-volume products that would pose no threat to the local environment.

In 1984, a separate government body was set up to coordinate and monitor the manufacturing sector. The Board of Trade and Industry is responsible for screening applications, smoothing the way for firms that see the island as a potential base and ensuring that suitable sites are available for them.

Local MP David Evans, president of the board, and John Dempster, chief executive of its secretariat, acted as Guernsey's salesmen last year on a week's promotional tour of California.

Their mission followed two to California in 1984 and two to the eastern United States in 1985, all of them backed by advertising campaigns and media interviews.

Among the direct results have been the setting up of a plant in the island by the California-based electronics company Texmate and a decision by the multinational Nashua Corp. to move its world distribution headquarters in 1985 from Bermuda to Guernsey.

The island's advantages for branch plants or relocation include its 20 percent level of income tax on both business profits and personal earnings, low rates on industrial property and a good labor record. The Channel Islands' special relationship with the European Community means that they enjoy free trade with the Common Market while being exempt from more onerous provisions such as the value added tax.

What incoming business executives particularly appreciate is the absence of red tape and the willingness of the island authorities to pull out all the stops to help sort out any initial problems.

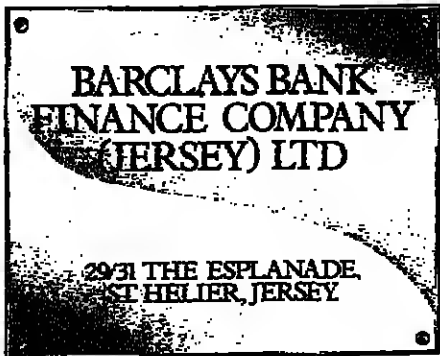
There are now about 80 units of light industry, embracing engineering, printing, boat-building, textiles, food and drink, furniture and crafts, as well as electronics. The last sector provides the most jobs, but the knitwear firm of Le Tricotier, a home-grown enterprise, employs 80 full-time workers and more than 500 home finishers.

But now, a manpower shortage has forced the Board of Trade and Industry to rethink its strategy. A proposed campaign in the United States last autumn was cut back, and the board sees its role for the present as a holding operation.



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Growth Fuels Jobs Dilemma

By Edward Owen

ST. PETER PORT, Guernsey — The two larger Channel Islands have a problem that many countries would envy: how to fill all the job vacancies being created by business growth.

As Jersey's chancellor, Senator Reg Jeune, and his Guernsey counterpart Conseiller Roydon Falla, both agree, the islands are lucky to have such a problem, particularly since only four years ago Guernsey was worrying about rising unemployment due to the decline of its tomato industry.

The dilemma for the politicians, however, is that the already heavily populated Channel Islands are committed to limiting the number of outsiders allowed in to service their expanding economies.

Slowing down the rate of immigration has been official policy for some years. However, it became a priority issue following last year's census, which showed that since 1981 Jersey's population had grown by 5.2 percent to 80,212 and Guernsey's by 4.1 percent to 55,482.

Both increases were well above expectations, and they were attributed almost entirely to immigration caused directly or indirectly by the financial boom.

The resulting prosperity has enabled the islands to maintain high investment in social services and capital projects and ensure well-paid jobs for their inhabitants. For example, car ownership is well above the U.K. level. But it has also led to pressure on housing and land and has pushed up wage levels and administrative costs.

In the first four months of this year, housing prices in Guernsey were nearly 40 percent higher than in 1986 and, according to Elizabeth Lincoln, president of the Housing Authority, young couples are being forced to move to the U.K. mainland because they can no longer afford to buy locally.

The jobs market is showing similar strains since the salaries and "perks" offered by the finance sector cannot be matched by other businesses. Guernsey's bus ser-

The dilemma is that the already heavily populated Channel Islands are committed to limiting the number of outsiders allowed in to service their expanding industries.

vices, for instance, have been cut back this summer because the operator could not find drivers.

The politicians, therefore, must figure out how to slow down the economic machine without putting on the brakes so hard that it begins to backslide.

Controlling immigration is an equally tricky question since the Channel Islands form a common travel area with the U.K. mainland, allowing unrestricted movement each way. This is a centuries-old right that the islands would be loath to jeopardize by imposing, say, frontier checks on U.K. citizens.

At present, Jersey is trying to control immigration through housing restrictions and through its Regulation of Undertakings and Development Law. This law was enacted in 1973 specifically to limit the creation of job opportunities.

Broadly speaking, non-Islanders can occupy houses or apartments only if they qualify as "essential" to the community or are wealthy enough to pay a substantial amount of tax. Both categories are confined to certain price brackets.

The Regulation of Undertakings Law governs the setting up and expansion of businesses and building development. Following the 1986 census, its provisions are being considerably tightened.

Until now business expansion has been controlled by licensing extra floor space, but the law is to be amended to license staff growth as well. The president of the Jersey Chamber of Commerce, Ian Barnes, warned that this will lead to "significant poaching of skilled staff."



Although the industry has declined in importance, tomatoes are still grown in large quantities on Guernsey.

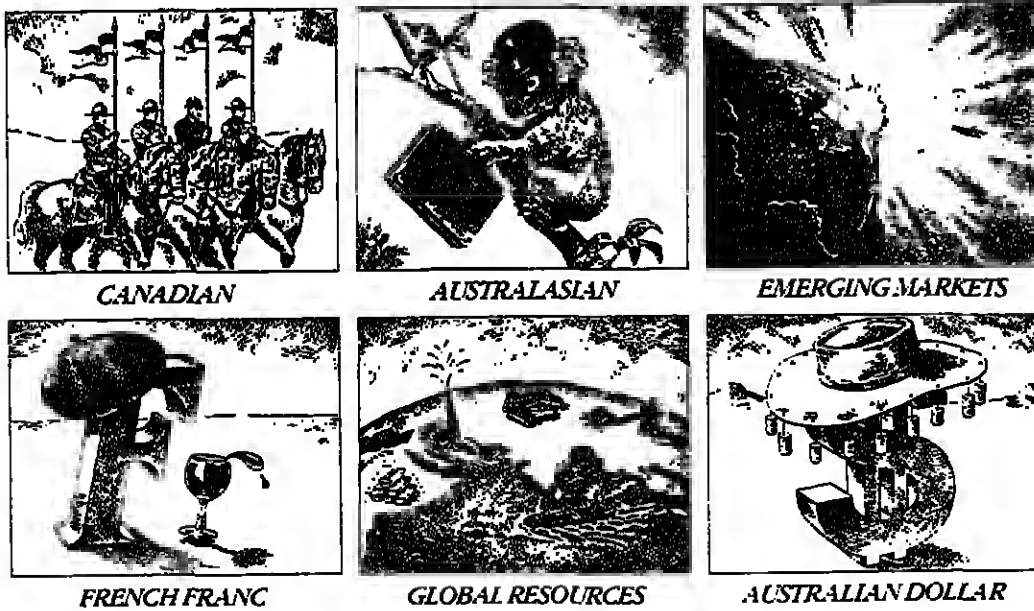
It has also been agreed that the maximum number of wealthy settlers admitted annually should be reduced from 15 to five and that "essential" employee licenses should increasingly be granted for a limited period only.

Guernsey has only one instrument for controlling immigration from Britain — its housing law. This divides properties into about 1,800 higher priced houses and apartments freely available to non-Islanders with the remainder reserved for local people or those holding "essential" licenses.

Guernsey's politicians are awaiting the results of an economic appraisal commissioned from consultants Peat Marwick Mitchell before deciding what steps to take to curb immigration.

At one time the island had seemed ready to introduce a regulation of undertakings law like Jersey's, but it has had second thoughts. Since unemployment is only a recent phenomenon, Guernsey's politicians are particularly nervous about making any move that might jeopardize economic growth.

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ARTS / LEISURE

Rosencrantz & Guildenstern Are Back

By Sheridan Morley
International Herald Tribune
LONDON — "Rosencrantz and Guildenstern are Dead" was the play that first made Tom Stoppard's name...

THE LONDON STAGE

of two celebrated alternative comedians known as the Oblivion Boys. Stephen Frost, who plays Rosencrantz or possibly Guildenstern, since confusion even about that is at the heart of Stoppard's comedy...

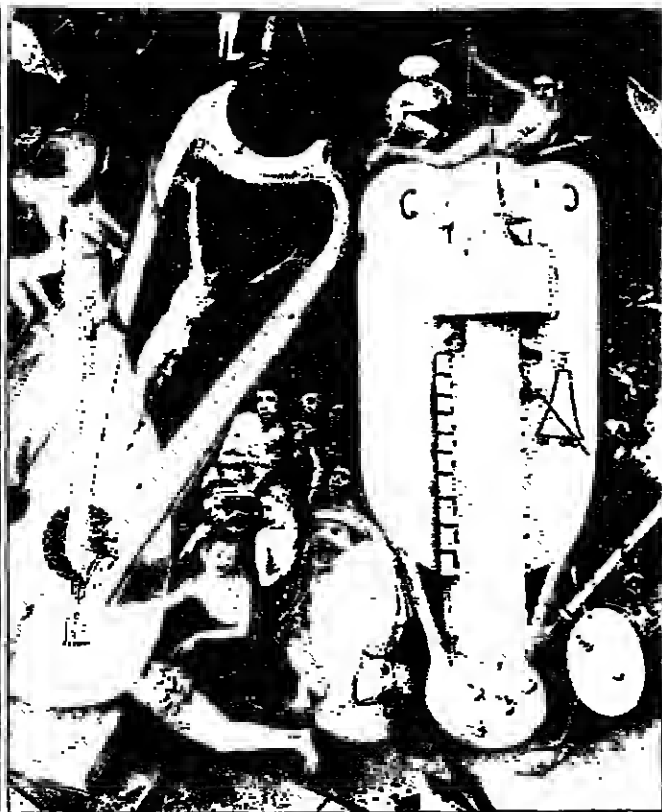
To have four actors on a small and somewhat bare stage playing 20 of the characters in Charles Dickens's "Hard Times" for a two-hour digest of the book might seem impossible...



Stephen Frost, Rosencrantz, Lionel Blair, First Player, and Mark Arden, Guildenstern.



Left, Adam and Eve in Martha Clarke's ballet; right, detail from "The Musician's Hell" by Bosch.



Animation of 'Earthly Delights'

By John Russell
New York Times Service
NEW YORK — It is the prerogative of great painters that, as Vincent van Gogh once wrote, they "keep their calm even in the midst of catastrophe."

But some of them present a terrible temptation. What if they have a scenographic potential that hampers us? What would it be like to bring one of those paintings to a different dimension of life? Shouldn't we know them better, enjoy them more, be more intimately a part of them?

As everyone knows, the Bosch triptych has a cast of thousands, many of whom get into deep trouble by the time the artist has done with them. It also has an animal kingdom as heterogeneous as any that has been set down on canvas.

All the way from the Garden of Eden to a particularly vindictive version of Hell, Bosch marshals a range of concepts that would tax the combined talents of Max Reinhardt among stage directors, Luis Buñuel among movie makers and Hector Berlioz among masters of tone-painting in music.

Greenwood, and the roster of Clarke's resources is complete. It therefore goes without saying that she has had to cut, edit, condense, foreshorten. Vast episodes vanish as if they had never been. Strange pageanters, likewise. Landscapes as big as all Kenya had to go.

But it is not lost. Nor is it betrayed. What Clarke has done is to work from feeling, and from her own personal magic, rather than as copyist or exegete. A first example will show how it works. The left-hand panel of the Bosch triptych is relatively tranquil in tone.

All is set, therefore, for the moment at which our first and universal ancestor met for the first time. The scene has an angelic sweetness and clarity, and we see at once that Adam has trouble believing his luck in having acquired so delicious a companion.

primal scene. "This is how it must have been," we say to ourselves. Adam and Eve don't "dance." They don't "act." But they give us the heart of the matter.

That they can do this is owed in part to Bosch's seraphic sense, and in particular to the manifold gifts of Stephen Silverstein. For much of the evening, Silverstein sits at the back of the stage and plays one after another of the ancient wind instruments that he has not only mastered but reconstructed with his own hands.

But it doesn't do to think of him as a passive observer. I cherished above all the moment at which he suddenly sprouted wings and flew up into the air, high above the stage, to intercept an angel who happened to be going his way.

Perhaps it was in the "musicians' hell" in the concluding section that Bosch was longest on feeling, as well as in sardonic invention. And perhaps it is there that Clarke hews closest to Bosch and yet is, paradoxically, most herself.

DOONESBURY



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U.S. 'Colorization' Ruling

WASHINGTON — The Library of Congress, which has jurisdiction over copyrights, has ruled that colored versions of black-and-white movies are eligible for copyright protection as "derivative work" under many circumstances.

The decision was a victory for such companies as Turner Broadcasting, which is making a large investment in coloring old films for television broadcast.

Although the decision does not address the moral or artistic arguments, it is a setback for actors, directors and producers who have opposed film coloring on those grounds. Congress has been asked to deal with the question whether coloring might be blocked on moral or artistic grounds.

Under the ruling, colored versions of movies could receive copyrights if they "reveal a certain minimum amount of individual creative human authorship and are produced by existing computer-coloring technology."

Many prominent film makers have been outspoken in their opposition to coloring and saw the ruling as a blow. "Naturally, I think it's a bad decision, and I think it's something the motion picture guilds will fight," said Woody Allen.

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NYSE Most Actives table with columns: Vol, High, Low, Last, Chg. Lists top trading volume stocks like AT&T, GM, and IBM.

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NYSE Index table with columns: High, Low, Close, Chg. Lists Composite, Industrials, Finance, and NYSE.

Tuesday's NYSE Closing Via The Associated Press logo.

AMEX Diary table with columns: Declined, Undeclared, Total Issues, New Issues, New Lists.

NASDAQ Index table with columns: Composite, Industrials, Finance, Utilities, New Issues, Total.

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Dow Jones Bond Averages table with columns: Bonds, Utilities, Industries, Close, Chg.

NYSE Diary table with columns: Class, Prev, Close, Chg. Lists various market classes.

Odd-Lot Trading in N.Y. table with columns: Buy, Sell, % of Total, % of Volume.

Dow Jones Averages table with columns: Open, High, Low, Last, Chg. Lists Industrials, Finance, Utilities, New High, SP 100.

Standard & Poor's Index table with columns: High, Low, Close, Chg. Lists Industrials, Finance, Utilities, New High, SP 100.

NASDAQ Diary table with columns: Class, Prev, Close, Chg. Lists various market classes.

AMEX Stock Index table with columns: High, Low, Close, Chg. Lists various market classes.

Tables include the nationwide prices up to the closing on Wall Street and do not reflect late trades elsewhere.

12 Month High Low Stock table with columns: High, Low, Stock, Div, Yld, PE, St, 100-High Low, Close, Quot, Chg.

Dow Posts First Loss in 2 Weeks

United Press International NEW YORK — Prices on the New York Stock Exchange edged lower Tuesday for the first time in more than two weeks as weakness in the dollar and bond markets triggered profit-taking and futures-related sell programs. Trading was active. The Dow Jones industrial average, which rose 24.66 points on Monday to hit its third consecutive record, fell 5.78 points on Tuesday to 2,439.73. It was only the Dow's fourth setback this month. Broader indexes also retreated. The New York Stock Exchange composite index lost 0.55 point to 172.22. Standard & Poor's 500-stock index dropped 1.23 to 308.43. The price of an average share slipped 13 cents. Declines led advances by about 4-3. Volume was about 194.2 million shares, up from 178.21 million on Monday. Prices fell off before midday with the appearance of some futures-related sell programs that kicked in when the dollar started to ease. But most traders and analysts agreed that the market is likely to continue its advance at least for the next week, with investors viewing any pullback as an opportunity to return cash to equities before the end of the second quarter. Many big investors sold stocks and raised cash in the weeks leading up to the economic summit meeting in Venice earlier this month and the "triple-witching hour" Friday, and many are now feeling pressure to reinvest those assets, analysts said. "After 11 days of moving straight up, the law of probabilities says there will be" a reaction, said Robert Ritter, a technical analyst with L.F. Rothschild Holdings Inc. "We were overdue for some form of profit-taking."

12 Month High Low Stock table with columns: High, Low, Stock, Div, Yld, PE, St, 100-High Low, Close, Quot, Chg.

Jim Andrews, a vice president in charge of institutional trading at Philadelphia-based Janney Montgomery Scott Inc., said that activity continued to center on the large-capitalization stocks favored by money managers and other big investors. "All the news is still pretty good," Mr. Andrews said. "Inflation is no longer in bloom, interest rates are trending down, and this latest bit of news was pretty good. There was a lot of window-dressing going on here." Peter Furniss, a managing director in the listed trading department at Smith Barney, Harris Upham & Co., agreed with this assessment. "The high-priced stocks" are "an area where you can spend a lot of money quickly," he said. But he added that the market was "still hostage to the dollar, when the dollar falls off, so do stocks." AT&T was the most active NYSE-listed issue, losing 1/4 to 28 1/2. Dayton Hudson followed, falling 1 to 53. The retailer hit a high of more than 57 this morning when it was reported to have received an unsolicited \$70-a-share takeover bid. The offer was later found not to be bona fide. IBM was third on the actives list, gaining 1/4 to 164 1/4. Gillette fell 1/4 to 39 in heavy trading. The Boston-based maker of personal care products has rejected a \$4.6 billion acquisition bid by Revlon Group.

12 Month High Low Stock table with columns: High, Low, Stock, Div, Yld, PE, St, 100-High Low, Close, Quot, Chg.

Continuation of market data and news snippets.

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MADISON AVENUE

Agency Sees a Revolution In Link to Movie Company

By PHILIP H. DOUGHERTY
New York Times Service

NEW YORK — A new entertainment unit set up by McCaffrey & McCall to serve the needs of United Artists Corp. will revolutionize the relationship between movie production companies and ad agencies, both sides say.

According to McCaffrey & McCall Entertainment and to Andrew Fogelson, president for marketing worldwide at United Artists, the agency and United will have a "true marketing partnership," with the agency making a creative contribution on every United movie.

This relationship is unusual, the client and agency agree, because the advertising for most movie production companies is usually done by Hollywood's boutiques and creative free-lancers.

Norman S. Freedman will be chairman and chief executive of McCaffrey & McCall Entertainment and Daniel Stern will be president and creative director.

Mr. Freedman said the agency had prepared to start the new unit by gathering marketing information on movies. It developed data on 440 variables affecting profit and fed it all into a computer.

"As a result, we have been able to increase profits without increasing marketing funds," Mr. Freedman said.

David B. McCall, chairman of the parent agency, a Saatchi & Saatchi company, said, "I think we are going to revolutionize the business."

And Mr. Fogelson said, "I think we were the first to do an analysis and come up with a process to help improve our business in a very dramatic way."

He said that starting July 31 with release of a new James Bond film, "The Living Daylights," United Artists plans to bring out eight features in the next 12 months and then go to a 10-film-a-year schedule.

Bozell, Jacobs, Kenyon & Eckhardt was invited to the Third World Advertising Congress in Beijing to present a campaign for a fictional product to 2,000 guests at the Great Hall of the People.

Instead, the four-man team headed by David Bell, the vice chairman, presented a highly polished campaign for an actual product, Chinese silk, and how sales could be stimulated in the United States. The presentation went so far as to include consumer research and copy testing. Afterward, an official of Chinese National Silk Corp. was impressed enough to invite the agency delegation to his office.

For the first time, Chrysler Corp. has appointed an agency specializing in advertising to minority markets. It is Lockhart & Pettus.

The agency will do both corporate and product advertising, and the budget will be in the millions of dollars.

For advertising to the Hispanic market, Lockhart will use the services of Montemayor y Asociados in San Antonio, Texas.

General Motors Corp. uses Mingo Jones for minority advertising and Ford Motor Co. has the Uniworld Group.

People

● Robert H. Levenson has been squeezed out as chief creative officer at Saatchi & Saatchi Compton. The title was eliminated when his firm merged with DFS Dorland to form Saatchi & Saatchi DFS Compton. Both agencies are owned by Saatchi & Saatchi PLC of London.

● Barbara Boyle has been appointed senior vice president at Ted Bates Worldwide.

● Ripley Odell has been named promotion director of Life magazine.

● James R. Blocki, vice president at Kraft Inc., has been elected chairman of the American Advertising Federation.

● Deborah K. Heineman has become promotion director in the United States for Reader's Digest.

Currency Rates

Cross Rates	June 23
Amsterdam	1.365
Brussels (cf)	33.227
Frankfurt	1.845
London (b)	1.595
Milan	1.323
New York (c)	0.628
Paris	6.108
Tokyo	146.70
Zurich	1.254
1 ECU	1.126
1 SDR	1.272

Currencies in London and Zurich. Rates in other European centers. New York rates at 4 P.M. (a) Commercial time; (b) American time; (c) Amounts needed to buy one unit of foreign currency. (d) Amounts needed to buy one unit of foreign currency. (e) To buy one pound: \$1.5143.
 Sources: Reuters, Deutsche Bank (Frankfurt), Banca Commerciale Italiana (Milan), Banca Nazionale del Lavoro (Rome), Bank of Tokyo (Tokyo), IMF (SDR); BAIJ (Tokyo, rival, dollar); Gasbank (Frankfurt). Other data from Reuters and AP.

Interest Rates

Eurocurrency Deposits	June 23
1 month	7 1/4 - 7 3/4
3 months	7 1/4 - 7 3/4
6 months	7 1/4 - 7 3/4
1 year	7 1/4 - 7 3/4

Key Money Rates	June 23
Discount rate	7 1/2
Prime rate	8 1/2
3-month Treasury bill	7 1/4
6-month Treasury bill	7 1/4
9-month Treasury bill	7 1/4
1-year Treasury bill	7 1/4

U.S. Money Market Funds	June 23
Merrill Lynch Ready Assets	4.2
3-day average yield	4.2
Treasury Interest Rate Index	4.4

Gold	June 23
London	428.20
New York	428.20
Zurich	428.20
Paris	428.20

Dayton Soars on 'Offer'

But Falls Back as Bid Proves Bogus

NEW YORK — A Cincinnati stock analyst made a bogus \$6.8 billion buyout offer on Tuesday for Dayton Hudson Corp., setting off wild gyrations in the retail giant's stock price.

The analyst, identified as P. David Herringer, later was fired by his employer, Capital Management Corp., and was taken for medical examination.

Mr. Herringer called Dow Jones News Service early in the day to announce the \$70-a-share buyout offer for Dayton Hudson Corp., according to Anthony Covatta, a neighbor who was acting as Mr. Herringer's spokesman.

The Minneapolis-based retailer has been the target of takeover speculation for weeks, and news of the offer caused a sharp rise in the company's stock price.

Shortly after the report, the stock jumped \$5 from Monday's New York Stock Exchange closing price, to \$59.

Trading was halted in New York after the reports, but resumed after about 90 minutes. The price began sinking as traders became suspicious about the offer. The stock closed at \$53, down \$1 from Monday.

Dow Jones, a financial service that is read by thousands of stock traders and other Wall Street professionals, later reported that the offer might not be bona fide, and Mr. Covatta confirmed it several hours later.

Mr. Covatta said Mr. Herringer, who he estimated was in his mid-40s, was taken to a hospital by his wife for an examination.

Mr. Covatta said Mr. Herringer "is not well today," but he did not know what might be wrong with him.

"It's just a terrible shame that this thing got out on the wire this morning," said Mr. Covatta, who is an attorney in Cincinnati.

Mr. Herringer had told Dow Jones that he represented Stoeck Inc., which he described as a Cincinnati-based company.

See DAYTON, Page 11



A Volvo worker performing one of the more regimented assembly tasks at Kalmar.

Volvo Sweeps Tedium Off the Floor

Quality Rises as Teamwork Supplants the Assembly Line

By Steve Lohr
New York Times Service
KALMAR, Sweden — In a novel plan based on concepts pioneered at its 13-year-old plant here, Volvo AB plans to jettison the assembly-line approach, in which each worker repeats the same task hundreds of times each day.

If all goes well, workers at a \$315 million plant under construction on Sweden's west coast will be organized into teams, each of which will ultimately assemble a complete car.

"I want the people in a team to be able to go home at night and really say, 'I built that car,'" said Pehr G. Gyllenhammar, Volvo's chairman. "That is my dream."

The new plant at Uddevalla is scheduled to open in 1988. At its Kalmar facility on Sweden's east coast, Volvo has been moving gradually away from assembly-line manufacturing.

The cars being built here are ferried around the plant by separate computer-controlled carriers. Work teams of about 20 people are responsible for putting together entire units of the car, such as the electrical system and

the engine. In this batch-work system, each worker typically does a series of tasks. Virtually all of the plant's 104 white-collar employees began on the shop floor. All major decisions at the plant, which has a

work force of 920, must be approved by a joint committee representing both labor and management.

Volvo asserts that the team approach to car assembly has raised employee morale at the plant and has sharply improved both productivity and quality. Quality is monitored by the

See VOLVO, Page 13

U.S. Prices Rose 0.3% in May; Orders Dipped

WASHINGTON — U.S. retail prices edged up 0.3 percent in May, the smallest increase this year, as a slowdown in energy prices partly offset sharply higher food costs, the Labor Department said Tuesday.

The increase in the department's Consumer Price Index, equivalent to an annual rate of inflation of 4 percent, also represented a slowdown in the pace of rising prices, following increases of 0.4 percent in each of the preceding three months.

Meanwhile, orders for durable goods, those items expected to last three or more years, edged down 0.1 percent in May, the first decline in four months, the Commerce Department said. The decline was led by a 1.1 percent drop in orders for military goods. Excluding this volatile category, durable goods orders rose 1.4 percent last month.

The May consumer price increase was the smallest monthly rise since a 0.2 percent increase last December. The figure helped underscore the view of many economists that inflation will not increase sharply through the rest of the year despite the large decline in the value of the dollar.

Largely because the lower dollar has raised import prices, the monthly consumer price rises for 1987 have pushed inflation to an annual rate of 5.6 percent, up from 1.1 percent last year.

But the dollar in recent weeks has begun to stabilize on foreign exchange markets. At the same time, economic growth throughout the industrial world remains sluggish, limiting the demand for goods and thus dampening inflation.

Food prices led the May price increases, up 0.6 percent after a 0.3 percent rise in April. Grocery store prices registered their biggest increase since last August, 0.9 percent. The price of beef rose 3.1 percent, offsetting a 0.3 percent fall in poultry prices, still rebounding from last year's fall in world energy prices, were 0.4 percent higher in May, following a 0.7 percent rise in April. The gasoline price increase was the smallest so far this year.

The 0.3 percent rise in automob-

ile prices matched the increase in April.

Durable goods orders totaled \$106.9 billion last month, down \$3 million from the April level. This 0.1 percent dip was the first decline since a record 9.8 percent plunge last January.

Orders in April had risen 0.7 percent, revised upward from the previously reported 0.1 percent.

The 1.4 percent rise that excluded military orders followed a revised April fall of 0.3 percent, originally reported as a 0.9 percent drop.

(AP, UPI, Reuters)

Swiss Top List Of Per Capita GDP, Bank Says

United Press International
GENEVA — Switzerland outranked the United States, Japan and other major industrial nations in per capita economic output in 1986, Union Bank of Switzerland reported Tuesday.

Switzerland's gross domestic product totaled \$20,437 for each inhabitant, the bank said. GDP is the total value of goods and services excluding income earned abroad.

In a list compiled by the bank, the United States placed second, with \$17,255 a person, and Japan third with \$16,213. Other countries, listed in order, were Sweden (\$15,868), West Germany (\$14,651), France (\$12,882), Austria (\$12,450), The Netherlands (\$11,800), Belgium (\$11,212), Italy (\$10,469), and Britain (\$9,654).

In national spending, Switzerland ended 1986 with a budget surplus equivalent to \$1.1 billion. The others all posted deficits, with the U.S. deficit of \$220.7 billion by far the largest.

The bank cautioned that comparisons in U.S. dollars were strongly influenced by the decline in the dollar against other currencies.

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is a single, fundamental principle: the protection of depositors' funds.

It should come as no surprise, then, that this pursuit of excellence results in considerable advantages to private banking clients, and the application of the very highest standards of excellence to the handling of your personal finances.

Republic's subsidiary in Luxembourg provides private banking clients with the protection of the stringent banking laws of that

The dedication to excellence of Republic National Bank is a natural outgrowth of the strong beliefs of its founder and principal shareholder, Edmond J. Safra.

Republic is firmly committed to such sound, traditional banking practices as diversification and the maintenance of a strong capital base.



country, and experienced account officers who speak your language.

And Republic's expertise internationally allows you to take advantage of opportunities to better manage your investments on a global scale.

The pursuit of excellence is our commitment. If that is something you expect of your bank, call us today at our Luxembourg office (352)-470 711.

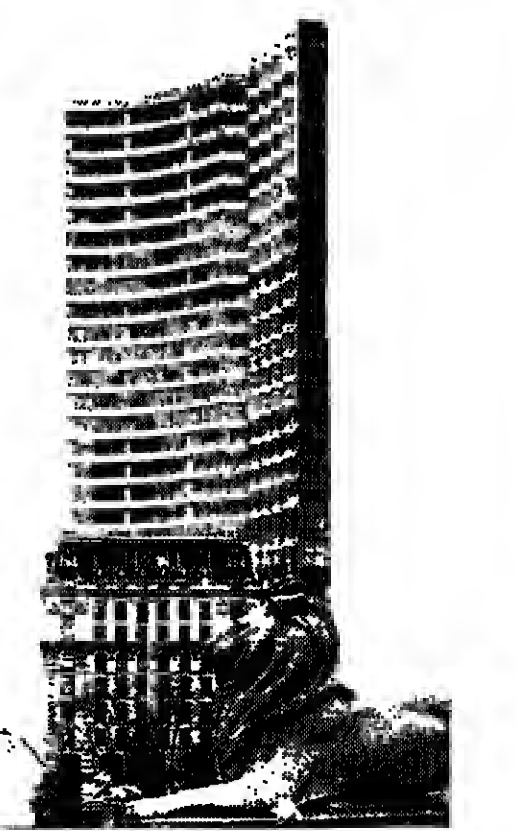


For Republic National Bank of New York, the relentless pursuit of excellence has achieved nothing less than excellent results.

Republic has grown to be the 11th largest bank in the United States, in terms of shareholders' equity.

It is active in 19 countries around the world, including the important banking centers of London, Luxembourg, Milan, Paris, Hong Kong, Singapore, Montreal, Tokyo, and of course, New York.

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Republic National Bank of New York World Headquarters Building, New York, New York

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FIGURES AS AT DECEMBER 31, 1986:
TOTAL ASSETS:
US \$16.8 billion
SHAREHOLDERS' EQUITY:
US \$1.6 billion

سكنا من اصل

BUSINESS ROUNDUP

Olivetti Sees Lower Net Profit for '87

By David Brown
Special to the Herald Tribune
IVREA, Italy — Olivetti SpA, the Italian computer and office products group, will post a decline in consolidated net profit this year after nine years of uninterrupted earnings growth, its chairman, Carlo de Benedetti, predicted Tuesday.

Court Ruling Seems to Boost Harcourt's Fight Against Bid
NEW YORK — A Florida judge has ruled that bondholders of Harcourt Brace Jovanovich Inc. have the right to convert their debentures to common stock, but for fewer shares than they hoped to receive.

Unveils New Computers
Olivetti said, meanwhile, that it would launch a major line of new personal computers using the powerful Intel 80386 chip, as well as software and other products, in the third and fourth quarters of this year, Reuters reported.

BAe Wins Huge, But Tentative, Jet Order
By Warren Getler
International Herald Tribune
LONDON — British Aerospace PLC said Tuesday that it had received a tentative order for 72 of its "Quiet Trader" cargo jets — its entire expected output for the next five years — from Australian-based TNT Transport Group.

Marathon Agrees to Sell Unit in West Germany
REUTERS
FINDLAY, Ohio — Marathon Oil Co. said Tuesday that it had agreed to sell its West German refining and marketing unit to OMV AG, the Austrian national oil company.

Asia Pacific Growth Fund
Weekly net asset value on 19-6-1987 U.S. \$7.42
Listed on the Amsterdam Stock Exchange

Joint Venture Aims to Track Vehicles in Europe With Satellite by 1991

By Axel Krause
International Herald Tribune
PARIS — France's space agency and a group of West European and U.S. companies and banks have established a new satellite communications service that can locate trucks, railroad cars, small aircraft and boats with an accuracy of 100 meters (330 feet).

Market studies have projected that Locstar could have up to 800,000 users within 10 years.
The program will depend on getting government approval and radio frequencies in European countries, as well as a slot on Europe's Ariane satellite launcher.

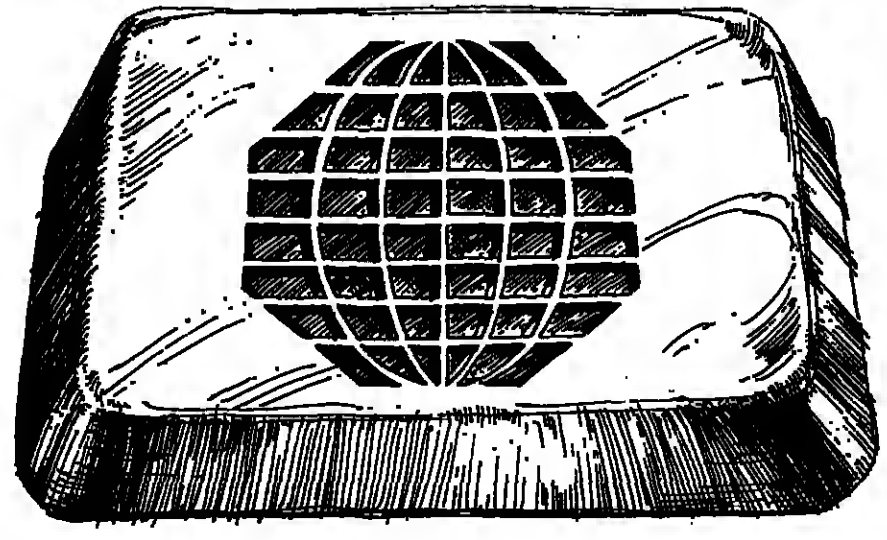
DAYTON: Bogus Bid Sways Stock

(Continued from first finance page)
cinnati-based private investment firm.
Mr. Herringer later was identified as a portfolio manager at Capital Management.

HACHETTE
HACHETTE S.A. GENERAL ASSEMBLY OF SHAREHOLDERS
JUNE 18, 1987
Chairman's address

1986 has been a year of achievement for Hachette in three respects. First, the Group's trading results reached a record level, amounting to F.Fr. 215.7 million prior to appreciation and depreciation, and to F.Fr. 405.8 million following adjustment. These results were achieved notwithstanding the very high level of investment over this trading period, in particular the acquisition of a majority shareholding in Europe 1 Communication as well as numerous developments and acquisitions abroad.

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*Lipper Analytical Services, USA
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CURRENCY MARKETS

DOLLAR: A Split Emerges on Whether Slump Is Over

(Continued from Page 1)

said, from the overwhelming bearishness that has dominated the market for months.

Dealers taking a positive view of the dollar cited progress in reducing the U.S. budget and trade deficits, as well as relatively high U.S. interest rates and other signs that the economy is gaining strength.

"I think we've seen the lowest point for this year," said a dealer for an American bank in Frankfurt. "While there are negative factors that will keep the dollar from climbing dramatically, as it did before peaking in 1985, I think we'll see incremental advances bringing it to around 1.90 DM by the end of the year."

Other dealers disagreed. "There is no change in the trend," a dealer for a large German bank said. "It has taken the market several months to push the dollar up a few pennings, in a minor correction."

"The basic economic strength needed for a longer-term rise is not there," he added. "What does exist in the U.S. is massive debt that has to be financed and some serious economic dislocations."

Mary Lynn McCaffery, vice president of foreign exchange for Citicorp in New York, said that the U.S. trade and budget deficits re-

London Dollar Rates

Table with columns for currency (Deutsch mark, Japanese yen, Swiss franc, French franc) and rates (1000, 10000, 100000).

main the dominant factors in the currency's movement. "On a volume basis," she said, "there is more improvement in the dollar than shows up on a dollar basis."

The dollar has fallen for seven consecutive quarters, Mrs. McCaffery said. But it will rise in the current quarter from the daily average of the previous three months, showing at least a newfound stability in the market, she said.

"We're seeing more of a mixed market. There are some bulls," Mrs. McCaffery said. "I would say 75 percent of the market is still very strongly bearish."

"It used to be 100 percent bearish, so that is a change," she said. "But the basic problems, the trade and budget deficits, are still there."

Trading Tuesday demonstrated the risks of buying dollars in the current market climate, said Daniel Holland, vice president for foreign

exchange at Discount Corp. in New York.

"The market went long on dollars and then everyone scrambled to sell because there were rumors the Fed was selling dollars," Mr. Holland said. "It shows how sensitive the bullish sentiment is right now to news and rumors."

The relative strength of the dollar in recent weeks drew a mixed appraisal from bankers and officials attending an international monetary conference in Hamburg.

For Karl Otto Pöhl, president of the Bundesbank, the dollar's performance "confirms that the adjustment process is under way. Markets are making the same assessment and therefore the dollar is recovering."

But commercial bankers saw the current strength as a technical reaction, with strength breeding strength as speculative short positions anticipating a further decline are closed out.

In earlier European trading, the dollar was fixed in Frankfurt at 1.8455 DM, up from 1.8353 Monday, and in Paris at 6.158 French francs, up from 6.1235. It closed in Zurich at 1.5248 Swiss francs, down from 1.5277. In London the pound closed at \$1.5995, up from \$1.5950.

DEBT: U.S. Owes Most

(Continued from Page 1)

ments overseas, which totaled \$1.068 trillion at the end of last year. The new figures confirmed the rapid pace of the country's plunge into debt. In 1982, the United States was the world's largest creditor nation with an investment surplus of \$141.1 billion.

But a string of record foreign trade deficits has wiped out that cushion, as Americans have transferred billions of dollars into the hands of foreigners by buying imported cars, television sets and a multitude of other products.

The country's shift to debtor status is directly linked to its deficits in merchandise trade. The only way the United States will be able to pay off its foreign debt is by running surpluses in its merchandise trade accounts, something that economists do not believe will happen for many years.

Although economists believe there will be a slight narrowing in the U.S. merchandise trade deficit this year from about \$166 billion in 1986, it will only slightly slow the buildup of foreign debt.

Economists are predicting that total U.S. foreign debt could hit \$1 trillion by the early 1990s. Many economists believe such a heavy debt burden will reduce the U.S. standard of living as foreigners demand higher and higher interest payments just to service the debt, by as much as \$50 billion a year, by some estimates.

Transfers of such large amounts of money to foreigners raise concerns that the U.S. economy could become subject to the whims of foreign investors.

President Ronald Reagan has sought to play down the change in the nation's position, saying that it proves how attractive investment in the United States is to foreigners.

Foreign holdings of U.S. Treasury securities climbed \$12.3 billion in 1986 to total \$96 billion. Other governments, including Japan and West Germany, have complained that the high U.S. budget deficit robs them of investment income and is a primary source of sluggishness in the world economy.

Some economists predict that Japan, which has supplanted the United States as the world's largest creditor, will see its surplus exceed \$500 billion by the early 1990s.

VOLVO: Automaker Drops Assembly Line, Sweeps Tedium Off Shop Floor

(Continued from first finance page)

that more work is performed by teams of workers in the pre-assembly stage, before the parts are loaded onto the slow-moving carriers weaving through the plant.

At Uddevalla, the work teams will perform an even greater variety of tasks. Volvo officials say that the plant will use a "standstill production" system, with workers clustered around a car while parts and materials are shuttled to the work stations.

The cars will be mounted on Kalmar-type carriers, but they might remain at a work station for hours. Volvo workers look forward to the adoption of the new system; in their view, the move away from assembly-line production at Kalmar has not gone far enough.

Worker surveys show that 90 percent prefer the less structured pre-assembly work, even when the pace is faster. In the more regimented assembly tasks on the carriers.

Uddevalla promises an added measure of independence. "We want to move away from assembly line production faster than anyone else," said Peter Borjesson, a 28-year-old worker and an official of the Council of Metalworkers Union.

The best guide to Volvo's production is the two-story Kalmar plant, whose hexagonal, cellular configuration makes it resemble a giant honeycomb when viewed from above. Its innovative techniques have been copied both by other Volvo plants and other automakers, including General Motors Corp.

But the road to success was sometimes rocky. Start-up costs were high and progress often slow. Despite the occasional setbacks, Volvo remained committed to the belief that work teams and a shift away from assembly-line production was the right strategy.

Today, that patience seems justified. Over the past five years, Volvo's car operations have posted 20 percent pretax profit margins and a 25 percent return on total capital, figures that make it perhaps the most profitable automaker in the world.

Volvo's car division generated revenue of \$5.81 billion last year. The company has yet to report the car unit's profit for 1986, but in 1985, it reported earnings of \$974 million on revenues of \$5.48 billion.

One reason Volvo is thriving is that its cars are high-priced, with base sticker prices in the United States ranging from about \$15,175 to over \$35,000.

Volvo, which long had a utilitarian image for Americans, are now seen as luxury cars and have become highly popular with young professionals.

But an equally important reason for Volvo's stellar performance is that its quality and productivity have improved markedly. Not all of the improvement can be attributed to innovation in its shop floors, but this clearly has helped.

"In the early years, a lot of people said Kalmar was for the birds, that it would never work in the real world," said Mr. Gyllenhammar. "But now almost all our plants use

Recalling When Volvos Weren't So Chic

By John Holusha New York Times Service

DETROIT — Volvos may be de rigueur among all those young professionals who have flocked to the American suburbs to raise their families, but it certainly was not always that way.

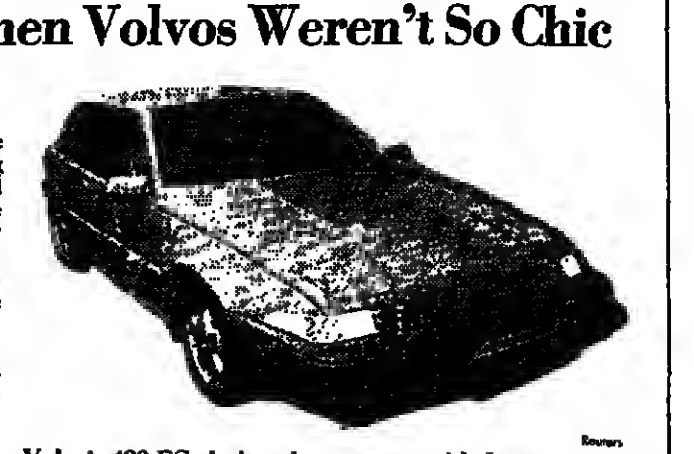
When Volvo AB of Sweden first marketed its cars in the United States in the 1950s, they literally stood out.

The graceful sedans resembled cars that plied American roads in the 1930s and 1940s, and the company sold only 1,600 cars in 1956, its first year in the U.S. market.

Volvo now outsells BMW, Audi, Mercedes-Benz and Saab in the United States, but has not become the largest marketer of pricey European imports by being one to embrace the latest fad.

In the 1950s and 1960s, when U.S. automakers were emphasizing flashy styling, greater horsepower and size, Volvo focused on durability, function and safety.

Its advertising featured testimonials to the longevity of Volvo cars, and how well they protected passengers in crashes. As a result, Volvo became the



Volvo's 480 ES, designed to compete with Japanese cars.

sensible car, the one identified with college professors, urban liberals and those who prided themselves on being immune to the whims of Detroit's "Big Three."

Volvo's U.S. sales growth was slow but steady, climbing to 25,155 cars in 1966 and to 43,887 in 1976. Last year, sales reached 113,267 cars.

In recent years, the company has tried to change its sturdy, sensible look to one approaching the luxury-performance image of such high-priced West German cars as the Mercedes-Benz. In

addition to the basic 240 series, Volvo has introduced the larger, more luxurious 700 models, with some priced close to \$35,000.

It has begun to market horsepower, equipping its 740 models, including a station wagon, with powerful turbo-charged engines and five-speed transmissions.

The approach appears to be working. In the first five months of this year, Volvo sold 52,881 cars in the U.S. market. At that pace, 1987 sales would top 125,000.

Bankers See Unsettling Risks in Settlements

By Carl Gewirtz International Herald Tribune

HAMBURG — Bank settlements procedures, an arcane backroom function traditionally left to technicians, have moved up to the board room as still another risk for bankers to be concerned about.

This was made clear here Tuesday when the heads of the world's 109 largest commercial banks devoted half a day of their three-day annual International Monetary Conference to the subject. Of the five separate working sessions, this was the only one dealing with banking procedures.

Participants were told that the increasing globalization of financial markets and the explosion in the volume of daily transactions has raised the systemic danger of a breakdown in the settlements pro-

cess, whether from a failure in technology or the bankruptcy of a counterparty.

At the same time, bankers made clear that they are still at the stage of trying to define weaknesses rather than proposing solutions.

"Efforts are under way," said E. Gerald Corrigan, president of the New York Federal Reserve Bank. "But the issues are complex, and we don't want to be hasty in coming to grandiose conclusions."

Dennis Weatherstone, president of Morgan Guaranty Trust, described the problem as he saw it.

"We now have a huge, complex, interlocking system of national and global markets, operating 24 hours a day, with settlements procedures for both cash and securities varying widely among markets, and pro-

visions for managing risk — and containing problems in the system if they do occur — still in their infancy," he said.

A major concern among bankers is the amount of time now taken to settle dollar-denominated transactions which, under current procedures, get settled in New York at the close of the business day.

Mr. Weatherstone suggested the creation of regional clearing mechanisms in Europe and Asia.

Separately, Federal Reserve Chairman Paul A. Volcker on Tuesday denied recent rumors that he would join Continental Illinois Corp. when his term expires in August. "I've got no intention of going to any commercial bank," said Mr. Volcker, who is attending the conference here.

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Small text at the bottom of the page providing additional information and disclaimers regarding the data presented.

SPORTS

Barriers Seen To Export of NFL Games

By Samuel A. Abrams

Tickets for the Denver Broncos-Los Angeles Rams exhibition game in London on Aug. 9 are going quickly and a sellout of 80,000 seats at Wembley Stadium is expected for a second year. But where else outside North America can a fan hope to see a National Football League game live?

Nowhere, Brian Sipe thinks. "It's not going to happen anytime soon," the former quarterback for the Cleveland Browns admitted. Harry Carson, the inside linebacker for the New York Giants, could only agree. "The Giants were invited to play the Broncos in London this summer," he said, "but the coach decided he didn't want the team to be distracted by the travel of a remaining player."

Now he is having second thoughts. "I haven't talked to anybody from the franchise," he said. "What I mean is that the teams would have to look at Europe as a potential television market, which is where the big bucks are. At least I would look at it that way."

In 1978, Carson recalled, "the Giants were invited to Mexico City by the Mexican government, all expenses paid, just to hold a training camp. We practiced three or four days, no pads, just jerseys and helmets, and the stadium was full. Thousands of people."

NBA Stars Are to Play 2 Exhibitions in Spain

WASHINGTON — A team of National Basketball Association all-stars was leaving Tuesday for a two-game tour of Spain.

The 24-man squad includes such players as Tree Rollins of the Atlanta Hawks, Roland Blackman of the Dallas Mavericks, and Charles Barkley of the Philadelphia 76ers. The NBA stars are to play Thursday and a Valladolid on Thursday and a Valladolid on Thursday and a Valladolid on Thursday.



Boston's Dennis (Oil Can) Boyd on the way to a 5-2 victory over Milwaukee in his first start of 1987, after a year of trouble.

The Oil Can's Fixed, And Red Sox Are Glad

Compiled by Our Staff From Dispatches

BOSTON — The Boston Red Sox have reason to feel good about baseball again after watching Dennis (Oil Can) Boyd pitch for the first time this season.

It's good to be back," Boyd said after allowing only five hits and two runs Monday night in his 1987 major-league debut.

Boyd threw 82 pitches in an impressive return from the disabled list. Except for three rehabilitation starts in the minors, he had not pitched since a Florida exhibition game March 25 because of tendinitis in his right shoulder.

Boyd, who left after seven innings, was in a happy mood in the clubhouse after the game was called with reliever Calvin Schiraldi on the mound.

"My arm feels good, no pain at all, no tightening up," Boyd said. "I feel I'm still capable of winning 15 ball games, and those 15 games will be credited to the team. I think I'm a big plus. I can help the team get going."

It's been a struggle since the start of spring training for the Red Sox, who lost last year's World Series to the New York Mets. Pitching ace Roger Clemens held out all spring and got off to a slow start; and men like Jim Rice, Dave Henderson and Marty Barrett have fought season-long slumps.



Hot-air inflated covers shielding Wimbledon's courts before the rain let up Tuesday.

Wimbledon Rain Ends, Becker Wins

The Associated Press

WIMBLEDON, England — Boris Becker began his rain-delayed defense of the Wimbledon men's tennis championship Tuesday with a 6-4, 6-2, 6-4 victory over Karel Novacek of Czechoslovakia.

Second-seeded Ivan Lendl defeated Christian Saccanu of West Germany, 6-2, 3-6, 6-3, 7-5, and Stefan Edberg of Sweden won his first match without losing a game.

Edberg, the fourth seed, dethroned Swede Stefan Eriksson, 6-0, 6-0, 6-0. It was the first whitewash at Wimbledon since the open era of tennis began in 1968.

Almost 28 hours after it was supposed to start, play got under way on the center court and 17 surrounding grass courts at the All England Lawn Tennis Club.

Rain that washed out Monday's play and half of Tuesday's card threatened through the late afternoon but held off to allow the first series of matches to be played.

To accommodate the backlog of matches, officials announced that play on all courts would begin at noon Wednesday, up to two hours earlier than usual.

Becker and Novacek received cheers from the center court crowd when they stepped out to start play, after a false start aborted by a shower an hour before.

Becker, bidding to become the third man to win three successive Wimbledon titles since the challenge round was dropped in the 1970s, brought more cheers with acrobatic shots, including a winning volley in the second set that he hit with his left hand after switching the racket on the dead run from his normal right-hand grip.

The 19-year-old West German broke Novacek for a 2-1 lead in the third set on a backhand that skipped off the net cord and dropped over, leaving the Czechoslovak sprawled on the grass.

In the 10th game, Becker finished the match by holding serve at love with two aces, a service winner and a backhand drop shot.

Amid the persistent rain, organizers had said Monday that they might consider moving the start of the tournament back a week to try to catch better conditions.

The NBA Draft Was a Little Man's Biggest Hour

By Michael Wilbon

NEW YORK — David Robinson decided to pose with Vice President George Bush and play a few holes of golf Monday, rather than come here for the formality of the No. 1 pick in the NBA's college draft. No suspense there. But later in the first round, the Washington Bullets created lots of excitement.

With the 12th pick, the Bullets drafted a man who, if he makes the team, will be the National Basketball Association's smallest player ever — the 5-foot-3 (1.61-meter) point guard Tyrone (Mugsy) Bogues, from Wake Forest.

Bogues helped make history again about 45 minutes later when his former high school teammate Reggie Lewis was drafted with the No. 22 pick by the Boston Celtics.

Bogues and Lewis had played together at Baltimore's Dunbar high school, along with Reggie Williams. And with Williams having been picked No. 4 by the Los Angeles Clippers, it was the first time that three high school teammates had been drafted in the first round.

Williams said that before the draft, "I was really, really nervous. Like I am just before a game."

Since Williams' uncertainty was over in the first half-hour of the draft, he spent the rest of the round rooting for Bogues and Lewis, who played his college ball at North-Central, to be picked within the top 10.

When the Bucks announced Bogues, Williams jumped out of his seat in the interview room and began slapping high fives with everyone within reach. His reaction

when Lewis' name was announced was only slightly more subdued. "We were all determined, we all wanted to make something of ourselves," Williams said. "I knew we'd all have productive college careers. But you just can't expect, with all the tens of thousands of players across the nation, that three little guys from one team would wind up going in the first round like this."

"I'm really proud of Mugsy. How long has he been proving people wrong, the people who keep saying he's too small?" Bob Wade, who coached the three at Dunbar and is now coach at University of Maryland, said: "I'm proud of every last one of them. But for a guy like Tyrone to beat the odds and be the 12th pick of the first round is just fantastic."

Monday's proceedings started off when San Antonio called the name of Robinson, Navy's 7-1 all-American who probably won't be able to join the Spurs for two years because of military duty, if he decides to play there at all.

Robinson got the official word while at Indian Springs Country Club in Wheaton, Maryland, for a charity golf tournament after a photo session with Bush. "I'm not really surprised," Robinson said. "There's a lot of options open to me. I'm going to take a good look at the city and the people."

Foreign Selections The Philadelphia 76ers took Chris Weir, the West German-born, 7-foot center from the University of Washington, as the 16th player in the first round. The Associated Press reported.

In the third round, the Atlanta Hawks chose 6-foot-10, 235-pound Song Tau of the Chinese national team, and Atlanta did not choose an American player for the rest of the draft.

The Hawks then took Theofanis Christodoulou of Greece, a 6-8, 210-pound forward; Jose Antonio Montero, a 6-4 guard from Spain; Ricardo Morandoti, a 6-6 forward from Italy; and Franjo Arapovic, a 7-1 center from Yugoslavia.



Tyrone Bogues, who is 5-foot-3, shaking hands in New York with another first-round choice, Dallas Cowboys 6-9.

British Managers' Iberian Migration

International Herald Tribune

LONDON — It would be stretching truth a bit to suggest the British are colonizing Spain. But soccer missionaries, part of the export package during Britain's empire building, are gathering on the Iberian peninsula.

By Friday seven British managers will be running Spanish clubs. Three more work in Portugal.

English is back in vogue. Lousy linguists, the British may be, but pesetas by the billion are gambled on Anglo-Saxon discipline and rigor transforming the Latins.

Terry Venables set the pace by guiding Barcelona to last year's Spanish championship. John Mortimore has just led Benfica to Portugal's league and cup double, a feat promptly followed by his removal at the whim of a new club president who wants Carlos Parreira as coach.

Parreira is a winning coach in the United Arab Emirates, but he flopped in Brazil.

Mortimore's next port is Betis of Seville, whose local rival Sevilla is driven by the hell-fire coaching of Jack Wallace, a Scotsman.

In another corner of Spain, John Toshack, former center-forward of Liverpool and of Wales, has won an extended contract from Real Sociedad de San Sebastian.

He has a new challenger, another Brit in Basque country, Howard Kendall abandons English champion Everton to tackle declining Athletic Bilbao.

Kendall, an astute man who at 17 was the youngest player in a Wembley cup final, quits Everton at 41 after leading the club twice to victory in the championship and also the FA Cup and Cup Winners' Cup inside three years.

He had a contract with two years to run and employers who offered a new four-year deal worth more than any manager in England.

Yet Kendall catches the gravity of the plan to sunshine, benevolent taxation, and fanatics who have not — yet — forced anyone to ban their teams.

Kendall dismisses talk of Bilbao paying him 45 million pesetas (\$355,650) simply to sign on. "If all I'd wanted was to be secure," he says, "I could have accepted Everton's very, very attractive offer and jugged along for four years."

But there is that little bit of ambition in me to go out and work on the continent. That flame of ambition."

An old flame. Last year Kendall was sounded out as a possible replacement to Venables. Venables stayed, and when Venables recently signed for another year in Catalonia, he is said to have recommended Kendall to the Bilbao president, Pedro Aurteneche.

Imagine what it meant to Kendall when his Everton board opted to sell top scorer Gary Lineker after the World Cup for almost £3 million (\$4.76 million).

"An offer you couldn't refuse?" Kendall was asked. "An offer the club felt they couldn't refuse," he responded.

Since losing Lineker (21 goals for Barcelona this season) Kendall overcame injuries to seven of Everton's team. Cleverly buying and selling, he captoed consistency from 23 players.

Everton found there was life after Lineker. Yet consider what it must have taken to motivate such a turnover of players to win the

SCOREBOARD

Baseball

Table with columns for Major League Standings (American League East, West, National League East, West) and Major League Leaders (Pitching, Hitting, Fielding).

Monday's Line Scores

Table with columns for American League and National League games, listing teams and scores.

Tennis

Wimbledon

Men's Singles First Round: Boris Becker (1, West Germany) def. Karel Novacek (Czechoslovakia), 6-4, 6-2, 6-4.

Men's Singles Second Round: Ivan Lendl (2, Czechoslovakia) def. Stefan Edberg (Sweden), 6-2, 3-6, 6-3, 7-5.

Men's Singles Third Round: Boris Becker (1, West Germany) def. Karel Novacek (Czechoslovakia), 6-4, 6-2, 6-4.

Men's Singles Fourth Round: Ivan Lendl (2, Czechoslovakia) def. Stefan Edberg (Sweden), 6-2, 3-6, 6-3, 7-5.

Men's Singles Fifth Round: Boris Becker (1, West Germany) def. Karel Novacek (Czechoslovakia), 6-4, 6-2, 6-4.

Men's Singles Sixth Round: Ivan Lendl (2, Czechoslovakia) def. Stefan Edberg (Sweden), 6-2, 3-6, 6-3, 7-5.

Men's Singles Seventh Round: Boris Becker (1, West Germany) def. Karel Novacek (Czechoslovakia), 6-4, 6-2, 6-4.

Men's Singles Eighth Round: Ivan Lendl (2, Czechoslovakia) def. Stefan Edberg (Sweden), 6-2, 3-6, 6-3, 7-5.

Men's Singles Ninth Round: Boris Becker (1, West Germany) def. Karel Novacek (Czechoslovakia), 6-4, 6-2, 6-4.

Men's Singles Tenth Round: Ivan Lendl (2, Czechoslovakia) def. Stefan Edberg (Sweden), 6-2, 3-6, 6-3, 7-5.

Men's Singles Eleventh Round: Boris Becker (1, West Germany) def. Karel Novacek (Czechoslovakia), 6-4, 6-2, 6-4.

Men's Singles Twelfth Round: Ivan Lendl (2, Czechoslovakia) def. Stefan Edberg (Sweden), 6-2, 3-6, 6-3, 7-5.

Men's Singles Thirteenth Round: Boris Becker (1, West Germany) def. Karel Novacek (Czechoslovakia), 6-4, 6-2, 6-4.

Men's Singles Fourteenth Round: Ivan Lendl (2, Czechoslovakia) def. Stefan Edberg (Sweden), 6-2, 3-6, 6-3, 7-5.

Men's Singles Fifteenth Round: Boris Becker (1, West Germany) def. Karel Novacek (Czechoslovakia), 6-4, 6-2, 6-4.

Men's Singles Sixteenth Round: Ivan Lendl (2, Czechoslovakia) def. Stefan Edberg (Sweden), 6-2, 3-6, 6-3, 7-5.

Men's Singles Seventeenth Round: Boris Becker (1, West Germany) def. Karel Novacek (Czechoslovakia), 6-4, 6-2, 6-4.

Men's Singles Eighteenth Round: Ivan Lendl (2, Czechoslovakia) def. Stefan Edberg (Sweden), 6-2, 3-6, 6-3, 7-5.

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OBSERVER

Upstairs, Downstairs

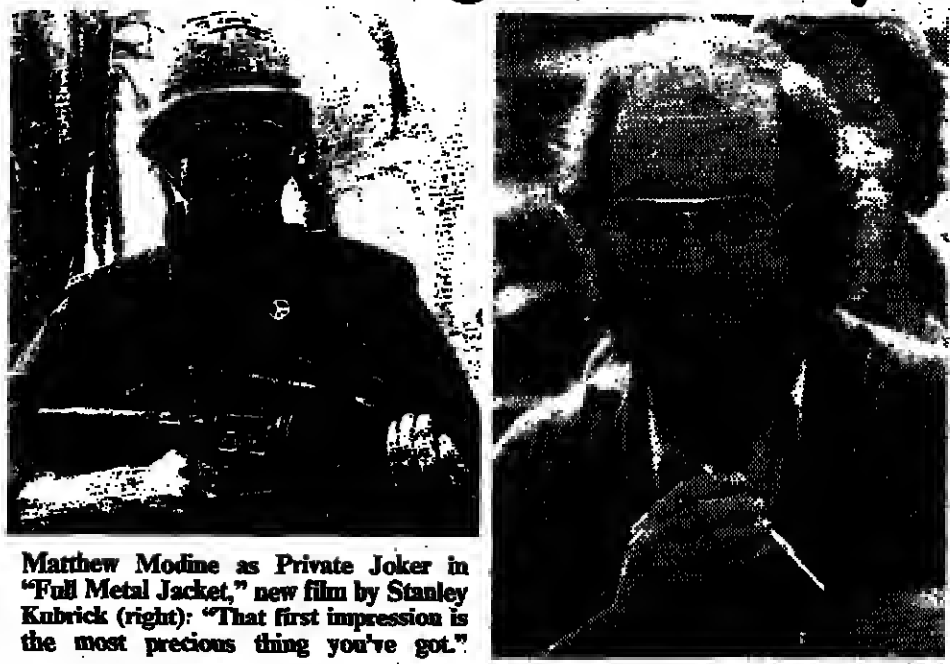
By Russell Baker

NEW YORK — The Goetz case is about a failure of government. The government of New York City has failed for years to provide its subway passengers with ample protection against violent assault. A generation of newspaper stories about subway riders robbed, beaten, raped and killed has recited the details of this failure ad nauseam. New Yorkers lacking a zest for adventure abandoned the subways long ago and even bold citizens tended to look for buses once night fell. As the city's underground failure became obvious, subway users developed a sense, possibly distorted but nonetheless ominous, of the subway as a danger zone. New York reinforced the riders' illusion of venturing into no man's land by sealing its token sellers inside bullet-proof booths and letting subway stations and trains become eloquent symbols of impotent government. It was easy after awhile to go from the same realization that the government wasn't doing a very good job down there to the paranoid conviction that nobody overhead cared what happened to you down there so you'd better be ready to make your own law. In fact, though, government was also failing up on the surface. Statistics showed that 9 crimes out of 10 brought no arrests and that the few who did get caught rarely went to jail. So the city government's failure bred public paranoia about the subways, and the city's ho-bum response to the conditions contributing to this paranoia lacked only a gutman seething with grievances about the failure of justice to give us the Goetz affair years before Bernhard Goetz picked up his gun and took a ride on the IRT. One fundamental reason for the existence of governments is to secure the safety of the people or, as the U.S. Constitution puts it, to "insure domestic tranquility" and "provide for the common defense." The government of New York City has failed for years to insure domestic tranquility in the subways, and it hasn't been much good at insuring it above ground either.

By Francis X. Clines

New York Times Service

LONDON — The measuring stick about Stanley Kubrick is that after being deep as Yahweh in the creation of one movie for the last five years, he emerges gentle and curious on the seventh day, asking about beer commercials and envying silent-film makers and recalling the pleasures of Manhattan's old Thalia movie theater. "Have you seen those Michelob commercials?" he asks as if they were sauteed, speaking of the 30-second spots that came uninvited with the Giant football game videos that his sister sent the eminent director all last winter from New Jersey. Then, he had no time to spare for watching anything beyond his own work in progress and a weekly fix of football. "They're just boy-girl, night-fun, leading up to pouring the beer, all in 30 seconds, beautifully edited and photographed. Economy of statement is not something that films are noted for." Sunday morning at Pinewood Studios seems sepulchral in the empty executive offices, as quiet as Hall's deep-space murder scenes in "2001," an awful setting to encounter one of a kind. But Kubrick arrives ruffled and lone as the night watchman, offers a simple hello, accepts the fact that he cannot direct the phone to work properly, and settles down to discuss movies and imagination and his own work. "It starts with being excited by a story and finally it's telling the story on the screen," he says, speaking of the process of directing. "It goes from the most wonderful literary atmosphere to desperation. It can be as crude as standing up and writing on the back of an envelope when someone's just said something and it's 4 o'clock with the winter sun fading. You've got to shoot it and you're trying to exploit something that's just come up. It's like a quarterback calling an automatic play when he sees the defense he's up against." His new movie, "Full Metal Jacket," a story tinged on the one hand with the trauma of the Tet offensive in the Vietnam War, is completed and opens in New York on Friday, October, an old 1930s-gasworks town abandoned on the Thames, had been destroyed by Kubrick's technical staff, all fiery and pocked as Hieu, the Vietnamese city of the movie's climax. The movie is literally only hours old in Kubrick's finished, perfectionist version, and far from talking 1980s box office or 1960s jabberwocky about his personal agony through the nation's Vietnam experience, Kubrick is describing being true to the initial emotion that struck him when he first found his story. That was five years ago, all fiery and pocked as Hieu, the Vietnamese city of the movie's climax. The movie is literally only hours old in Kubrick's finished, perfectionist version, and far from talking 1980s box office or 1960s jabberwocky about his personal agony through the nation's Vietnam experience, Kubrick is describing being true to the initial emotion that struck him when he first found his story. That was five years ago, all fiery and pocked as Hieu, the Vietnamese city of the movie's climax.



Matthew Modine as Private Joker in "Full Metal Jacket," new film by Stanley Kubrick (right): "That first impression is the most precious thing you've got."

No, he had no craving to make a signature movie about that war, he says. He was reading the Virginia Kirkus Review, as he usually does, looking for stirring fiction about something anything that might promise a stunning translation to film and he came upon a novel, "The Short-Timers." He "I reread it almost immediately and I thought, 'This is very exciting. I better think about it for a few days.' But it was immediately apparent that it was a unique, absolutely wonderful book," he says about the novel, written by Gustav Hasford, a former Marine combat correspondent whose offering resembles a memoir of the pellucid and the ravaged as much as the naked and the dead. The screenplay is by Kubrick, Hasford and Michael Herr, author of "Dispatches," a memoir of the Vietnam War. "Full Metal Jacket" is a reference in military bureaucrat to the rifle cartridge that is the field ammunition of the basic Marine Corps fighter-killer. The movie is blue with death and madness but also characteristically belligerent, particularly in the initial boot camp scenes where men are shaved for war. The character of Private Joker, played by Matthew Modine, traverses the war diagonally, encompassing the propaganda mill of the combat correspondents and the sudden, all-hands combat duty of the Tet offensive by the North Vietnamese. This is an event that shreds the jingoistic romance of the war and makes an unlikely killer of Joker. Kubrick works hard to make years on a picture, searching out a story, writing a script, producing and directing all the way down to, lately, the search for good foreign writers, actors and directors who might not spoil the work for him in the four main movie dubbing markets. His choice of subject matter for a new film is enough to fascinate bulls who have bounded with him across 30 eclectic years on "Paths of Glory" to "Spartacus" from "Lolita" to "Dr. Strangelove" from "2001: A Space Odyssey" to "A Clockwork Orange" from "Barry Lyndon" to "The Shining." "I'm happy with the picture," he says in this period of 18 months of missed movies, good and bad, and read as ever with the hope of finding another story.

PEOPLE

George Abbott in Form At His Own Centenary

"One hundred years to be a very lucky number," said George Abbott. "One of the great things is that everybody loves you." The entire theater world seemed to be in a fever for Abbott as a gala 100th birthday party for the producer-director-writer-actor in New York's Plaza Theater. The celebration brought together dozens of theater people who have worked with Abbott, a handful of family members, and 1,600 guests. Accolades were offered by many alumni of George Abbott shows, including Helen Hayes, whose performance in Abbott's "Cocoanuts" 60 years ago was a career milestone; Harold Prince, whose career began as Abbott's office boy 39 years ago; Carson Kressly, the writer and director who was Abbott's assistant director in the mid-1930s; Jerome Robbins, who co-directed "Pajama Game" with Abbott 35 years ago; the lyricists Betty Comden and Adolph Green, and Donald Saddler, a choreographer and long time collaborator, who is doing the musical staging for a revival of Abbott's 1926 melodrama, "Broadway." Earlier, at his office, Abbott allowed considerably since he made his Broadway debut in 1913. "Every day in New York now is a spectacle," he said. "We used to produce shows for \$15,000, which meant there were a lot more successes." Prince Wafid bin Saad, a nephew of King Fahd of Saudi Arabia, was fined \$280 pounds (\$448) by a court in London after pleading guilty to being in possession of cocaine and cannabis. He was arrested near Oxford in May when the police found the drugs after the prince's car was in an accident. The new Earl of Wharfedale is planning to visit the family seat in northern England this summer during a vacation from his job as a Maine construction foreman. American-born Richard Wortley, 34, upon learning of the former car's death, suggested he might decline the title. But he has since learned that his is the earl whether he likes it or not. "It is not a matter of accepting it or not. It is a matter of deciding if I didn't want to have anything to do with it. I'd hate to break the tradition," he said.

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